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## ECONOMIC INTELLIGENCE REPORT

# SINO-SOVIET BLOC ECONOMIC POLICIES IN UNDERDEVELOPED COUNTRIES OF THE FREE WORLD



CIA/RR 59-13

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CENTRAL INTELLIGENCE AGENCY

OFFICE OF RESEARCH AND REPORTS

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SINO-SOVIET BLOC ECONOMIC POLICIES  
IN UNDERDEVELOPED COUNTRIES OF THE FREE WORLD\*

Summary and Conclusions

A major goal of Soviet foreign policy since the Geneva Conference of 1954 has been the development of ostensibly friendly positions of influence in the Free World, positions which would provide a favorable setting for the attainment of the ultimate goals of Soviet foreign policy. To this end the entire Sino-Soviet Bloc has greatly enlarged its political, cultural, and economic contacts with countries in all areas of the Free World. Much of the Bloc activity has been focused on underdeveloped areas where the young nations seem to be most responsive to Bloc inducements and least capable of thwarting the expansion of Communist influence. An economic approach has been widely used because it provides immediate entry into countries whose governments are preoccupied with the problem of industrializing and at the same time seems to support the propaganda claim that the Bloc is a peaceful and selfless promoter of a better life for everyone.

Moreover, the rapid economic growth of the USSR probably has convinced many Soviet leaders that they can advantageously compete with the West, not only in commodity markets but also in capital markets. Thus, although the USSR has extended economic and military credits to the Free World amounting to about \$1.5 billion during the past 3 years, its actual outlays are currently less than one-tenth of 1 percent of gross national product (GNP). Economic assistance for other Bloc countries has placed some additional burden on the Soviet economy; nevertheless, the net burden of the entire program is less than one-half of 1 percent of Soviet GNP. The USSR appears capable of continuing to extend credits at the rate of about \$500 million annually without raising the burden materially above the current level, if due consideration is given to repayments of credits. Trade with underdeveloped countries can be expanded by 1965 to about five times its present level (approximately \$700 million in 1957) without any strain on the Soviet economy and possibly with considerable over-all economic gains.

The capabilities of China and the European Satellites are primarily in expanding commerce with underdeveloped countries; nevertheless, some further assistance may be forthcoming from these countries. The European Satellites, in particular, are capable of supplying much of the

\* The estimates and conclusions in this report represent the best judgment of this Office as of 15 March 1959.

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equipment and some of the technical skills that are financed under Soviet credits.

Since 1954 the Sino-Soviet Bloc has extended about \$2.4 billion in credits and grants. Of this sum, about \$780 million in credits have been extended for military purchases and about \$1.6 billion for machinery and other materials for economic development purposes. The USSR has extended \$1.6 billion in credits, the European Satellites \$649 million in credits, and China \$119 million in credits and grants. Egypt, Yugoslavia, India, Syria, Afghanistan, and Indonesia have been the principal recipients of Bloc credits and grants, together accounting for more than 80 percent of the total extended.

Of the \$2.4 billion extended, approximately \$1.8 billion have been obligated for specific purposes and a minimum of \$904 million drawn for payment of goods and services. Drawings have been most rapid on military credits -- about \$500 million -- for the arms arrangements are implemented with greater speed than other agreements. Bloc-sponsored projects in underdeveloped countries, however, have been growing in number each year, and it is anticipated that annual drawings for these purposes will rise above the current rate. The Bloc already has completed at least 55 projects in underdeveloped countries and has under construction or contract at least 90 more. Included are electrification projects, road and port development, bridge construction, petroleum exploration and refining, and a variety of small industrial establishments.

Agreements for Soviet credits generally call for repayment over a 12-year period, with interest at 2.5 percent. Credits extended by the European Satellites usually are scheduled for repayment over a shorter period and carry a higher rate of interest than Soviet credits. Soviet assistance is generally extended as a line of credit, whereas European Satellite credits are more often extended for a specific purpose. The line-of-credit agreements provide for future negotiation on specific projects to be covered under the general assistance pacts. Repayment clauses in all types of agreements generally provide for annual negotiations to establish commodity lists, prices, and quantities of goods to be delivered as well as the proportion of goods and convertible currency for each installment.

A large number of Bloc technical specialists have entered underdeveloped countries of the Free World in conjunction with the economic and military assistance programs. In 1958, about 4,000 Bloc personnel were employed in 20 underdeveloped countries. Of these, approximately two-thirds were industrial, agricultural, or other professional personnel and the remainder were military technicians and advisers. Egypt, Indonesia, Afghanistan, Syria, India, and Yemen were the countries utilizing the services of the largest number of Bloc technicians.

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Bloc trade with underdeveloped countries has expanded at a fast pace since 1954, approximately doubling during the span of 4 years. Nevertheless, these exchanges, amounting to \$1.8 billion in 1957, are still less than 5 percent of the value of trade of the Free World developed countries with the less developed world. The sharpest expansion has occurred in the trade of the USSR, although European Satellite trade with underdeveloped countries is still somewhat larger than that of the USSR. Bloc exports have risen most rapidly in Asia, and imports from the Middle East have increased more dramatically than those from other areas. Several countries, of which Egypt, Iceland, and Afghanistan are the outstanding examples, have become dependent on the Bloc for a substantial portion of their trade. For the most part, these countries are major recipients of Bloc assistance.

Bloc imports from underdeveloped countries are predominantly composed of crude materials and food products. Cotton, rubber, tobacco, sugar, and fish are important items imported by the Bloc. With the exception of its purchases of Egyptian cotton, the Bloc has served only as a minor outlet for the so-called surplus commodities of "one-crop" underdeveloped countries. Several countries, nevertheless, have entered trade agreements with the Bloc in the belief that significant relief to their foremost export problems would result. Bloc exports to underdeveloped countries consist of a wide variety of goods. Soviet exports include machinery and other manufactured goods, petroleum and petroleum products, and, in particular, food products and crude materials. The European Satellite exports are almost exclusively machinery, industrial equipment, and other types of manufactured products. China's exports consist principally of crude materials and food products, but these types of goods are being increasingly displaced by shipments of light manufactured goods.

In those neutralist countries where the Bloc has concentrated its efforts, its program is somewhat larger in size than that of the US even though it is much smaller than US aid in the entire Free World. During the 3-year period ending in June 1958, for example, the 9 major recipients of Bloc assistance were extended Bloc credits and grants amounting to about \$2.0 billion while receiving about \$1.5 billion from the US. The Bloc appears to anticipate the greatest political returns, however, from certain qualitative characteristics rather than from the magnitude of its program. In a pointed manner the Bloc has formulated its proposals to contrast with the US program, to arouse anti-Western prejudices, and to create the impression that the Communist Bloc alone supports a disinterested, nonaggressive path to peace and economic progress. Neither economic assistance nor military aid, for example, has been contingent upon the recipient country's joining a military alliance backed by the Bloc. Projects frequently are of the type that will show quick results insofar as industrialization is concerned.

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Administrative delays have been minimized. An integrated program is generally offered to the underdeveloped countries, a program wherein financial, technical, and specialist assistance is closely allied to offers of expanded trade. Virtually all transactions are negotiated on a government-to-government basis, giving superficial credence to Bloc assertions that its program is devoid of private graft within the recipient country and is free of the taint of imperialism because private capitalists are not involved.

Thus, although the magnitude of the Bloc program in some countries is formidable, the challenge to the West lies principally in the ability of the Bloc to pattern its offers to fit the specific requirements and to appeal to the particular prejudices and objectives of individual underdeveloped countries. By following this flexible procedure the Bloc, without undertaking a program of massive aid, is able to obtain the maximum political benefit from the economic offensive.

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I. Bloc Policy Toward Underdeveloped Countries of the Free World.

A. Soviet Concept of Competitive Coexistence.

The Soviet economic offensive in underdeveloped areas of the Free World is a key element in the global Soviet strategy of "competitive coexistence." The present Soviet leaders apparently have chosen a nonviolent means of resolving the East-West power struggle because this path seems to offer opportunities for a continued enlargement of their sphere of influence without increasing the danger of a mutually destructive war with the West. Moreover, Soviet leaders are greatly impressed by the growth of their country's economic capabilities and probably believe that they can advantageously prosecute a policy of economic competition. Thus peaceful coexistence appears to have become more than a tactical maneuver and, in its new competitive form, has become the battle itself. That an inevitable struggle between East and West would be the climax to the period of peaceful coexistence, however, has never been seriously doubted or denied by Soviet leaders.

Although no precedent can be found for this approach in the rigidities of Stalinist foreign policies, the USSR has often pursued policies which in the short run seemed contrary to its admitted long-range goals. Soviet leaders have often stressed their belief that flexibility implies the Communist Party's emancipation from the need to be consistent on the surface. For example, Lenin himself admonished those who, in the struggle against world capitalism, "refuse beforehand

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to maneuver, ... to temporize, ... to compromise ... . Is it not as though, when making a difficult ascent of an unexplored and hitherto inaccessible mountain we were to refuse beforehand ever to move in zigzags, ever to retrace our steps, ever to abandon the course once selected to try others?"

B. Coexistence and Cold War in Underdeveloped Areas.

Soviet interest in underdeveloped areas of the Free World is a blend of Tsarist inheritance, national ambition, strategic considerations, and Communist revolutionary mission. For example, the ambition to gain control of the Eastern Mediterranean and to guarantee sympathetic states on the southern frontier undoubtedly continues to be paramount in Soviet thinking. It is this expansionist aspect of the new Soviet economic offensive which appears potentially dangerous to the West.

Foreign economic activity as a means of achieving political aims has always been an outstanding feature of Soviet foreign policy. Except for the formative years of the Soviet state when the Tsarist legacy of technical and economic backwardness and the "hostile capitalist environment" militated against effective use of the foreign trade monopoly, the USSR has displayed an ability to amalgamate economic and political techniques into a unified foreign policy.

The creation, in the period following World War II, of a self-contained trading area in Eastern Europe was a convincing demonstration of Soviet foreign economic policy in action. In Western Europe, however, a trade promotional campaign of unparalleled magnitude climaxed by the Moscow Economic Conference in 1952 elicited little positive response. It is not surprising, in light of the Communist emphasis upon flexibility of tactics, that the USSR, having been frustrated in its attempts to extend its influence over Western Europe, should have turned to other areas. The underdeveloped countries -- virtually all of which have recently emerged from colonial rule with an abundant legacy of anti-Western sentiment -- offered the Communists the "weakest links" through which the political and economic encirclement of Europe and the political isolation of the US could be accomplished.

Thus the immediate Soviet ambition is to eradicate Western influence in these newly independent areas as rapidly as possible and simultaneously to render them increasingly vulnerable to Communism. The USSR also probably intends to create economic pressure upon capitalist countries dependent on underdeveloped areas for markets and sources of supply as well as to exploit differences existing among members of Free World alliances.

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Although political considerations are undoubtedly a primary determinant of Soviet activity in underdeveloped areas, there is little indication that the USSR has suffered any economic loss in the process. On the contrary, although increased exports to these areas may in the future tend to intensify Soviet domestic economic problems, the goods which the USSR receives in return, primarily food products and crude materials, have a counterbalancing effect in relieving Soviet shortages of agricultural and other raw materials.

## II. Bloc Capabilities for Trade and Economic Assistance.

### A. USSR.

The rapid economic growth of the USSR has led to a number of developments that influence its ability, and probably the willingness of its leaders, to expand economic relations with underdeveloped countries. Output of goods and services grew to an annual level of about \$185 billion\* in 1957, providing the USSR with a vast potential for extending economic assistance and enlarging international trade. 1/\*\* The present rate of growth and the anticipated rate of expansion in the future (about 6 percent) are substantial indications that the Soviet potential for economic assistance and trade will continue to grow.

The relatively faster expansion in output of producer goods compared with some other industries provides a base for a rising level of exports of certain durable manufactured goods to countries whose resources are largely devoted to the production of primary goods. Moreover, as the annual volume of production has risen, it has become less imperative that the USSR receive immediate returns from its international transactions. The USSR is now capable of sustaining a persistent export surplus and can wait without difficulty for several years for returns from its exports. In short, the USSR has the economic foundation required to undertake a large foreign credit and technical assistance program and to attain a position of some importance in world trade.

#### 1. Economic Assistance.

Soviet economic and military assistance outlays financed by credits to underdeveloped countries during 1957 were about \$150 million.\*\*\* Thus, with a gross national product (GNP) of about \$185 billion,

\* Values in this report are expressed in current US dollars.

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\*\*\* This estimate does not include shipments of military goods under European Satellite credits, although it is possible that in fact some of the Satellite credits have been underwritten by the USSR.

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the cost of Soviet assistance to underdeveloped countries at most is currently less than one-tenth of 1 percent of Soviet GNP.

At the present rate of growth of Soviet production, 6 percent per year, GNP will be between \$280 billion and \$300 billion in 1965. If extensions of credit to underdeveloped countries are continued at the current rate of about \$500 million annually with drawings spread over a 5-year period, Soviet assistance expenditures will rise continually for several years but will always remain a relatively small part of GNP. The net burden of the assistance program on the Soviet economy, however, is dependent on the repayment of these credits as well as on expenditures or drawings under them.\* Until 1960, repayments will be minor, but in the succeeding years they will be large enough to reduce significantly the impact of the program on Soviet gross availabilities. In general, Soviet assistance pacts call for repayment to begin in the year following the utilization of each specific portion of the over-all credit and to continue over 12 years. Under these conditions the net burden of a program at the current rate would be at a peak of about \$260 million by 1962, remain at that level for a year or two, and then begin to decline (see Table 1\*\*). By 1965 the net burden of the assistance program on the Soviet economy would fall to about \$220 million. Enlargement of the Soviet program, of course, would increase the burden of the Soviet economy. If Soviet extensions of new credits are raised to \$1 billion annually, the burden would be at a maximum of only \$520 million in 1963.

The actual surplus in the trade of the USSR with underdeveloped countries so far probably has been somewhat smaller than the theoretical burden of the assistance program. In 1957, for example, the Soviet surplus in trade with these countries (including estimated arms shipments, some of which may have been under Satellite credits) was about \$55 million, whereas the theoretical burden for the year was \$150 million. Incomplete data for 1958 indicate that the actual surplus in trade again will be somewhat smaller, although by a lesser amount than in 1957, than the theoretical burden. Soviet imports in excess of exports under bilateral trading arrangements probably have accounted for the failure of the USSR to develop larger over-all export surpluses with underdeveloped countries. Thus short-term commercial credits which have developed in bilateral clearing accounts appear to have offset in large measure the drawings on long-term Soviet loans in both 1957 and 1958, the real burden of the

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\* All statements pertaining to the net burden of the Soviet assistance program are based on the assumption that all payments on Soviet credits will occur on schedule. If the USSR postpones or cancels payments, the net burden on the Soviet economy will be correspondingly increased.

\*\* Table 1 follows on p. 8.

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Table 1

Net Burden to the USSR of Economic Assistance  
to Underdeveloped Countries of the Free World  
1957-65

Million US \$		
Year	Burden <u>a/</u> of Credit Extensions at the Present Rate (\$500 Million per Year)	Burden <u>a/</u> of Credit Extensions at Double the Present Rate (\$1 Billion per Year)
1957	150	150
1958	200	200
1959	220	320
1960	250	420
1961	260	480
1962	260	510
1963	250	520
1964	240	510
1965	220	480

a. The term burden is defined as the dollar equivalent of expenditures under Soviet credits minus repayments by the recipient underdeveloped countries. It is assumed that credits will be utilized over a 5-year period and that repayment will begin during the year following each specific utilization and continue over a 12-year period. Interest payments on Bloc loans have been excluded from consideration in this computation.

assistance program being correspondingly reduced. In the future, as the clearing debts of the past are eliminated, the USSR probably will generate export surpluses with underdeveloped countries greater than the theoretical burden of its assistance program; however, the USSR probably will be receiving from other areas, Communist China and the European Satellites in particular, substantial payments on clearing credits as well as on economic assistance loans.

Since early 1956, about \$1.5 billion in credits and about \$75 million in grants have been extended to other Bloc countries. These credits and grants generally are implemented more rapidly than are those to underdeveloped countries, in part because many of the intra-Bloc loans are for commodities which can be readily delivered. Repayment terms of these loans vary considerably; in general, however, intra-Bloc loans are scheduled for repayment over shorter periods than are those extended to underdeveloped countries. Consequently, the impact of

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Soviet loans to other Bloc countries is felt within a relatively short period after credits are extended.

By combining the results of the projected programs of Soviet assistance to underdeveloped countries and to other Bloc countries and taking into account repayments on Soviet loans extended before 1956, in particular those of Communist China, it is possible to estimate the net burden under given conditions of the entire Soviet foreign assistance program. Under both small (annual extensions of \$500 million each to other Bloc and to underdeveloped countries) and large programs (annual extensions of \$1 billion each to other Bloc and to underdeveloped countries), the peak burden would emerge in 1960 (see Table 2\* and Figure 1.\*\*). The greatest yearly burden under the small program would be about \$500 million and under the large program about \$1.2 billion. In both cases the net burden would decline rapidly after 1960. It would be about \$200 million in 1965 under the small program and about \$600 million under the large program. In other words, a Soviet foreign assistance program involving credit extensions of \$1 billion annually would not require net outlays of more than about \$500 million in any year. A large program involving credit extensions of \$2 billion annually would require a maximum annual outlay of less than \$1.2 billion.

Thus, in terms of gross magnitudes, there can be little doubt of the capacity of the USSR to continue offering assistance at the same rate as in the recent past. The burden in 1957 was approximately as great as the peak burden if credit extensions are continued at the present rate and only slightly greater than the \$440 million export surplus. Because no strain in fulfilling foreign assistance commitments has so far been apparent, it can be concluded that any difficulties in carrying out a program expanding at the present rate probably will be minor and transitory. This conclusion is reinforced when account is taken of the probability that annual production in the USSR will continue to grow at a rapid rate.

Because of competing internal demands, however, the USSR has exercised some restraint in offering certain types of capital goods. This caution has been more noticeable in Soviet relations with Free World countries than with other Bloc nations and most apparent in regard to the supply and erection of plants for steel production and of complex equipment such as telecommunications installations. It is significant, for example, that the USSR has agreed to provide only a single steel plant to the Free World -- the Bhilai mill in India -- during the past 4 years. Alternative internal uses of capital items for communications, steel, and engineering production will continue to have a high priority in Soviet plans for domestic growth. Consequently, the USSR

\* Table 2 follows on p. 10.

\*\* Following p. 10.



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Table 2

Net Burden to the USSR of Economic Assistance  
to All Foreign Countries  
1957-65

Million US \$		
<u>Year a/</u>	<u>Small Program b/</u>	<u>Large Program c/</u>
1957	512	512
1958	392	392
1959	455	930
1960	486	1,156
1961	324	987
1962	385	1,003
1963	363	926
1964	265	753
1965	170	573

a. The estimated burden for 1957 and 1958 is based on probable drawings and repayments on known credits. For all other years the estimated burden is based on probable drawings and repayments on known credits and projected drawings and repayments under given conditions. For a description of these conditions, see the text. Allowance has been made in these computations for repayments on loans extended before 1956.

b. Annual burden if the USSR extends credits at the rate of \$1 billion per year, equally divided between other Bloc countries and underdeveloped countries of the Free World.

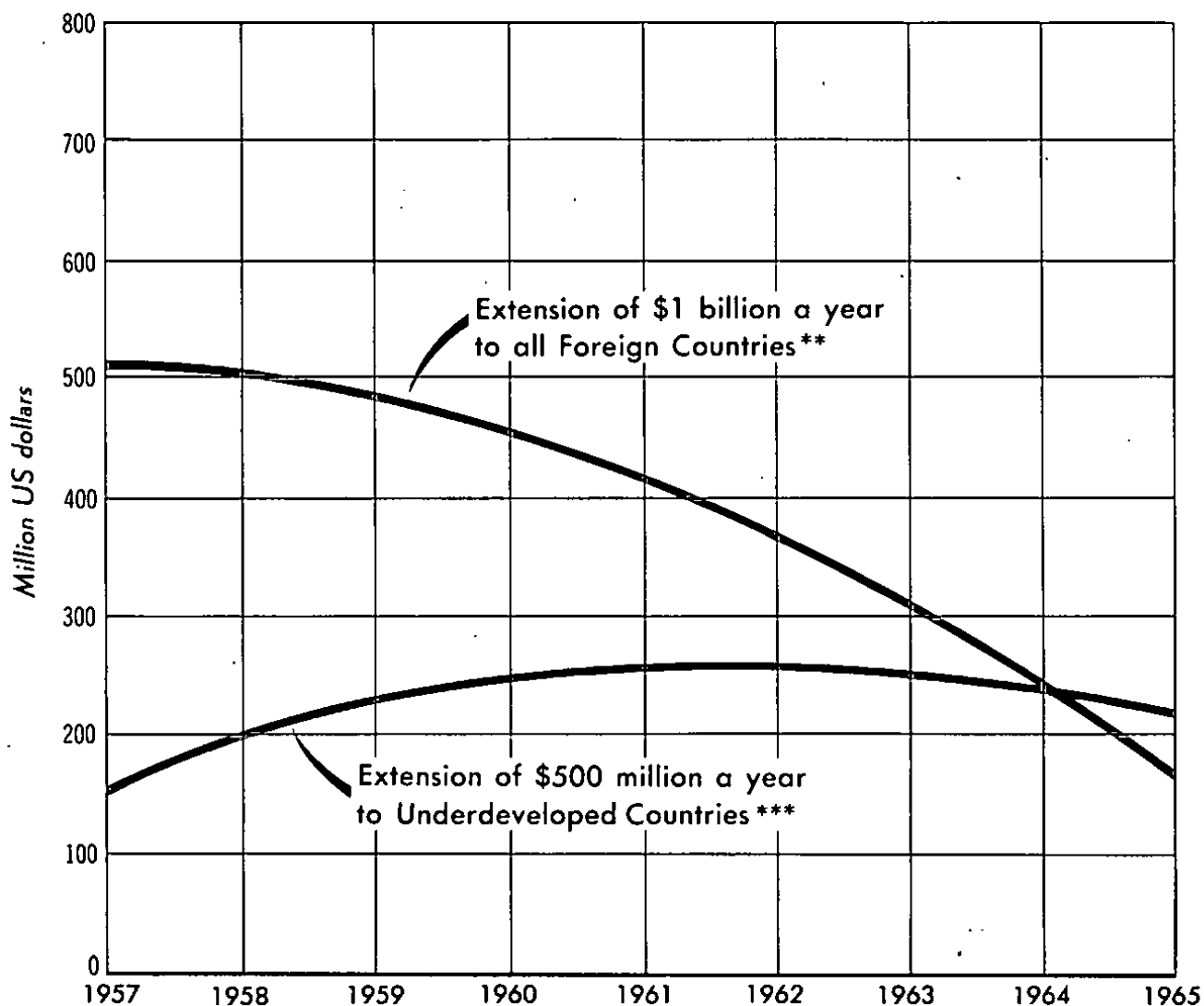
c. Annual burden if the USSR extends credits at the rate of \$2 billion per year, equally divided between other Bloc countries and underdeveloped countries of the Free World.

probably will continue to offer primarily simple types of plant and equipment and to be circumspect in offering other types of productive plant and equipment under its foreign credits to underdeveloped countries, even though it has a general capability for providing assistance on a fairly large scale.

A program approximately double the size of the present one might present some problems for the USSR, but they would probably be minor problems. If Soviet GNP reaches the anticipated level of \$215 billion to \$225 billion in 1960, the net burden of foreign assistance in the peak year would be much less than 1 percent of GNP.

Figure 1 50X1

## NET BURDEN\* TO THE USSR OF ECONOMIC ASSISTANCE TO FOREIGN COUNTRIES 1957-65



\* Burden is defined as the dollar equivalent of expenditures under Soviet credits minus repayments by the recipients. Interest payments on Bloc loans have been excluded from consideration in this computation.

\*\* Trend line based on computations of Table 2, under the column heading "Small Program".

\*\*\* Trend line based on computations of Table 1, under the column heading "Burden of Credit Extensions at Present Rate".

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Moreover, whatever minor strains might result from an enlarged program can be eased by expanding the program gradually. By increasing foreign credit extensions in graduated steps from the present rate of \$1.0 billion annually to a rate of \$2.5 billion in 1964, the USSR could avoid having a net burden of more than \$1.0 billion in any year. As long as the Soviet GNP continues to grow at the projected rate, the net burden would not be more than one-half of 1 percent of GNP in any year.

Full repayment on the average schedule, which is envisaged in the foregoing analysis, can in no way be considered a certainty. The most important variables -- the over-all financial condition of the underdeveloped countries concerned as the time for meeting the installment payments nears -- cannot now be forecast with confidence. US experience suggests that the Soviet Bloc may expect a somewhat slower repayment rate than called for in the loan agreements. Because Soviet Bloc loan agreements -- especially those of the USSR -- generally permit repayment in local currencies and products, a significantly better experience may be anticipated than has been the case so far with US loans. The USSR, on the other hand, may be confronted with some difficulty in disposing of local currencies or local products received as repayments.

In any event, the USSR would have to be faced with wholesale defaults on a large scale for the burden on its economy to be affected in any important measure. Even in the unlikely event that the level of repayment should fall to zero, the result would be far from catastrophic, although the willingness of the USSR to expand its credit program might be influenced accordingly.

When Soviet spokesmen assert that the USSR is ready to provide anything that underdeveloped countries request which is within the capability of the USSR, they are not necessarily making an empty gesture. Without increasing the strain on internal plans, the USSR can double its present foreign assistance program and include in its offerings a wide range of items. In the event that internal adjustment is required in order to fulfill a specific request, the time needed will almost always be available, for the projects that are likely to create such problems are also projects for which elaborate preparations must be made before they can be started.

## 2. Trade with Underdeveloped Countries.

The great area and the rich natural resources of the USSR have enabled the Soviet government to follow an economic policy largely independent of the rest of the world. The volume of goods and services entering into foreign trade, as a result, has never been a significant part of annual production, for the USSR has concentrated on the

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exploitation of its vast and varied internal resource base. Yet foreign trade has always played an important role in Soviet economic plans, for it has been a means of obtaining much of the technical assistance as well as some of the machinery and equipment needed for development. Moreover, the volume of foreign trade has expanded considerably in recent years. In 1957, Soviet exports (about \$4 billion) were approximately 2.5 percent of GNP, a proportion that is not far below that of the US, whose 1957 exports (about \$18 billion) were approximately 4 percent of GNP.

At the present time, Soviet trade with underdeveloped countries is at a rate of about \$800 million. Trade of the Sino-Soviet Bloc as a whole with underdeveloped countries is at a rate of about \$1.8 billion. In contrast, the trade between the underdeveloped countries of the Free World and the US, the UK, France, and West Germany combined is in excess of \$28 billion annually. Thus there is a tremendous gap between the commerce of the USSR, or the entire Bloc, with underdeveloped countries and that of the principal Western powers with those countries. The success of the USSR in expanding its trade, however, probably will be determined to a large extent by the fact that its present trade is at a relatively low level. Under these conditions the USSR can nibble relatively insignificant segments of commerce now being carried on with Western countries and, when prime opportunities are presented, become an important buyer in selected Western markets and a supplier of significance to a number of countries outside of the Bloc.

One important route by which the USSR may expand its trade with underdeveloped countries is through its economic and military assistance program. Increases in trade that have already occurred have been in large measure a consequence of the assistance program. As implementation of this program builds up in the coming years and as the underdeveloped countries begin to repay Soviet credits, trade will continue to grow under its impetus. The credit program, however, will not be the only factor influencing Soviet trade with underdeveloped countries. Since 1953, trade not directly related to economic assistance has increased at an average rate of about 25 percent each year. Trade may not continue to increase indefinitely at this rate, although it may rise at this fast pace for several years to come. In this event, Soviet trade with underdeveloped countries will rise to more than \$2 billion by 1962, taking into account exchanges induced by the assistance program as well as those resulting from Soviet commercial activities (see Table 3\*). The size of the assistance program will play an important role in continued expansion; the small program will result in a trade level of \$2.0 billion by 1962, the large program in a trade level of \$2.3 billion.

\* Table 3 follows on p. 13.

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Table 3

Impact of Soviet Economic Assistance  
and Commercial Activities on Soviet Trade  
with Underdeveloped Countries  
1957-65

Million US \$		
<u>Soviet Trade with Underdeveloped Countries</u>		
<u>Year</u>	<u>Small Program a/</u>	<u>Large Program b/</u>
1957	680	680
1958	825	825
1959	1,181	1,281
1960	1,346	1,536
1961	1,653	1,913
1962	2,017	2,347
1963	2,446	2,856
1964	2,970	3,440
1965	3,605	4,115

a. Credit extensions at the present rate (\$500 million per year).

b. Credit extensions at double the present rate (\$1 billion per year).

Thus by 1962 the USSR may be exporting goods worth \$1 billion to \$1.5 billion annually to underdeveloped countries and importing goods worth about \$1 billion each year from them. Neither the export nor the import figure represents a significant portion of the projected Soviet GNP for 1962, in each case much less than 1 percent. Relatively simple changes in internal planning would be required, and the necessary adjustments in resource allocation could be made gradually, for this rise in trade.

In view of the importance which many Soviet leaders ascribe to economic competition, especially in underdeveloped areas, it would seem that they are willing to assume any risk of dependence on foreign sources of supply that may be involved. The potential political returns probably are regarded as outweighing whatever risk may result. Moreover, Soviet leaders probably believe that trade with underdeveloped countries involves less risk to Soviet economic autonomy than does trade with developed capitalistic countries. Most of the underdeveloped countries, in particular those that are willing to deal with

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the USSR, bear some animosity toward the West and toward Western forms of capitalism. Underdeveloped countries are not as likely to impose politically inspired barriers to trade with the USSR as are the more powerful Western industrial countries. Finally, the confident belief expressed by Soviet leaders that underdeveloped countries will continually move in the direction of Communism probably gives an optimistic hue to their impression of the risk involved in expanding trade with these countries now.

B. European Satellites and Communist China.

The European Satellites and Communist China occupy an important place in the Bloc economic offensive, but their activities, in comparison with those of the USSR, are minor in both scope and magnitude. European Satellite trade with underdeveloped countries is larger than that of the USSR; however, it is increasing much less rapidly than that of the USSR. A large amount of credit has been extended by the European Satellites, but in many instances the Satellites appear to have operated as middlemen for the USSR. Moreover, much of the Satellite credit has been used for purchasing arms which have been supplied out of existing stocks or by the USSR. Communist China's trade with underdeveloped countries of the Free World is smaller and is increasing no more rapidly than that of the USSR. Its assistance program, strategically significant and surprisingly large in relation to its capabilities, is dwarfed by that of the USSR.

1. Economic Assistance.

Neither the European Satellites nor Communist China has the economic capability of sustaining a substantial program of economic assistance to underdeveloped countries. Communist China's GNP was about \$47 billion in 1957 and that of the European Satellites about \$65 billion to \$70 billion. 2/ Although production is growing rapidly in most of these countries, it is unlikely that more than moderate sums will be available for allocation to economic assistance to Free World countries in the next several years.

The major hindrance to extension of credits by the European Satellites to underdeveloped countries, aside from the fact that their political interest is only indirectly involved, lies in the fact that Satellite internal demands are quite pressing. To meet these needs, several of the Satellites have themselves required substantial amounts of economic assistance. Czechoslovakia alone among these countries is in a favorable position to extend economic assistance, but its capability is limited by the size of its economy. With a GNP of less than \$15 billion annually, Czechoslovakia can offer substantial assistance on a continuing basis only at the cost of a significant reduction in

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consumer availabilities or in capital formation. Czechoslovakia may, however, extend credits averaging \$50 million to \$100 million annually without experiencing more than minor difficulties.

In spite of problems and inadequacies that prevent them from providing credit assistance on a large scale to underdeveloped countries, the European Satellites can play an important role in the economic offensive by selling complete factories, equipment, and technical advice on commercial terms. Moreover, they may carry out the actual implementation of Soviet credit agreements. There is no evidence that this practice has been followed extensively in the past, but there are indications that it may become more prevalent in the future. Assistance agreements signed by the USSR with Syria and Egypt permit the latter countries to contract for Satellite projects under Soviet credits. In addition, there have been reports that the USSR may establish a credit procedure wherein loans to foreign countries would be partially available for expenditure in all Bloc countries. An arrangement of this nature would enable the European Satellites to dispose of those types of producer goods which are available in relative abundance without making current sacrifices in their own development plans.

Communist China has extended a surprisingly large amount of credits and grants to underdeveloped countries of the Free World. About \$120 million in assistance have been extended in the past 3 years, of which about \$60 million have been in the form of grants and the remainder in credits. In addition, Communist China has provided other Bloc countries with assistance totaling about \$535 million.

The figures are impressive, however, primarily because of the unimpressive size of Communist China's economy. Whatever may be the economic rationale behind Communist China's assistance program, about \$185 million were budgeted to foreign aid, both Bloc and Free World, for 1958. Should this practice continue, Communist China may well provide economic assistance to the countries of the Free World at the rate of \$50 million to \$75 million per year.

Implementation of an assistance program of this size is probably feasible, as much of the assistance provided by China is in the form of consumer goods and other materials which are sold in the recipient country to generate local development funds. Producer equipment, textile machinery in particular, has been promised in small quantities, but it appears that such commitments generally have been made when China was experiencing a temporary surplus of the particular goods involved. Textile machinery, for example, has been offered when raw material availabilities in China have been inadequate to support continued current expansion of the domestic textile industry.

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2. Trade.

Both the European Satellites and Communist China have economies that are peculiarly suited for trade with Free World underdeveloped countries, but for different reasons. The complementarity of economic structure between the European Satellites and the underdeveloped countries provides a basis for advantageous trade relations between the two groups of countries. Such complementarity does not exist to any great extent between Communist China and the underdeveloped countries. There is a basis, nevertheless, for considerable intraregional exchange with other Asian countries of some industrial goods, textiles and textile equipment in particular; crude materials, such as coal and petroleum; and agricultural products, such as rice, cotton, and rubber. Free World countries in the area on an average now conduct about one-third of their trade with other Asian countries, one indication of the potential for Chinese Communist intraregional trade.

The emphasis on industrial growth prevalent in all of the European Satellites for the past decade has resulted in production patterns favorable to expanded trade with underdeveloped areas. Although Satellite trade with underdeveloped areas increased rapidly in the early years of the economic offensive, since 1955 the rate of increase has fallen to 6 to 8 percent per year. Consequently, Satellite trade with these countries is still overshadowed by the much larger exchanges of the latter with Free World developed countries. Such relatively small countries in Western Europe as Belgium, Luxembourg, and the Netherlands each transact about twice as much trade with the underdeveloped countries as all of the Satellites. Moreover, although Satellite trade with underdeveloped areas probably will continue to increase, the rate of growth probably will be little greater than it has been during the past 3 years. Thus, if the trade of Free World developed countries with underdeveloped countries continues to increase as rapidly as it has during the past 3 years, Satellite trade with these countries will not gain in relative significance.

To a certain extent, the failure of the Satellites to expand commerce more rapidly is traceable to the absence of suitable multilateral trading devices. Although many underdeveloped countries are eager to cultivate markets for their exports in the Bloc and would like to restrict their convertible currency obligations, the necessity of conducting transactions with the Satellites within a bilateral framework has inhibited the growth of trade. The inconvertibility of Satellite currencies also has hampered Satellite trade organizations in dealing with underdeveloped areas. In spite of moves to reduce their significance, these difficulties are likely to continue to impair Satellite efforts to expand trade with underdeveloped areas in the near future.



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Measures intended to alleviate the types of economic problems that in part brought on the political unrest in Hungary, East Germany, and Poland have been adopted in most Satellite countries. These domestic economic policies have limited export availabilities, and, as a result, none of the Satellites, with the exception of Czechoslovakia, is in a position for a rapid expansion of exchanges with underdeveloped countries. Czechoslovakia has less serious internal economic problems than the other Satellites, and its products command more respect in underdeveloped countries than those of other Bloc countries. Consequently, Czechoslovakia may continue to increase at a fairly rapid pace its exports to underdeveloped countries in order to obtain crude materials needed for expansion of industrial and consumer goods output. Although much of Czechoslovakia's requirements of crude materials will be filled by other Bloc countries, imports of mineral, food, and other agricultural products from underdeveloped countries probably will continue to rise, and the rate of increase may be substantial. Czechoslovakia probably will not increase its trade with underdeveloped countries to a level comparable to that of many small Western countries, however, for several years to come.

Communist China's most advantageous trade with Free World underdeveloped countries is with those in the Asian area. Although these countries have resource bases that are generally similar to that of China, there are considerable opportunities for exchanges of mutual advantage. Communist China has expanded its trade with those countries in recent years, but it appears that the potential for beneficial exchanges has not been exhausted.

The highest priority in Communist China's economic plans is given to development of heavy industry, however, and in order to attain the targets in basic industry it is essential that imports of machinery, equipment, and installations for construction comprise a substantial portion of total imports. Except as a means of earning convertible foreign exchange for use in Western Europe, trade with other underdeveloped countries, consequently, assumes a secondary economic role. Such trade will doubtless continue to mount, but the rate of increase will be governed by the ability of China to allocate exports to these areas.

The annual export availabilities of China probably will rise considerably during the coming years, in particular if the goals of the "leap forward" program are substantially fulfilled. A considerable portion of the increase in exports, however, will have to be directed toward other Bloc members simply in order to maintain imports from these countries at the level of recent years. Some export earnings probably will have to replace drawings on Soviet credits as a means of payment for imports. Payments on credits will necessitate a substantial flow of

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exports toward the USSR. Moreover, parts of large credits extended by Communist China to other Communist countries in Asia are scheduled for implementation during the coming years.

Thus much of the anticipated increase in Communist China's exports during the coming years will probably be channeled toward other Bloc countries. If Communist China raises its imports from the Bloc above past levels, availabilities for expanding to the Free World will be somewhat restricted. Such exchanges probably will not double during the next 4 years as they did during the past 4-year period. The most likely rate of increase appears to be 5 to 10 percent per year. Thus Chinese Communist trade with underdeveloped countries of the Free World is not likely to rise above \$600 million annually until after 1962.

### III. Bloc Program.

#### A. Bloc Economic Assistance.

##### 1. Magnitude and Direction.

Since the inception of the economic offensive in 1954, the Sino-Soviet Bloc has extended about \$2.4 billion in credits and grants to underdeveloped countries of the Free World.\* Of this total, the USSR has provided \$1.6 billion, the European Satellites \$649 million, and Communist China \$119 million. About \$1.6 billion of the credits and grants have been earmarked for the purchase of Bloc equipment and materials or for other economic development purposes. Credits extended for the purchase of military equipment from the Bloc have amounted to about \$780 million (see Table 4 and Figure 2\*\*).

Table 4

Credits and Grants Extended by the Sino-Soviet Bloc  
to Underdeveloped Countries of the Free World  
1 January 1954 - 31 December 1958

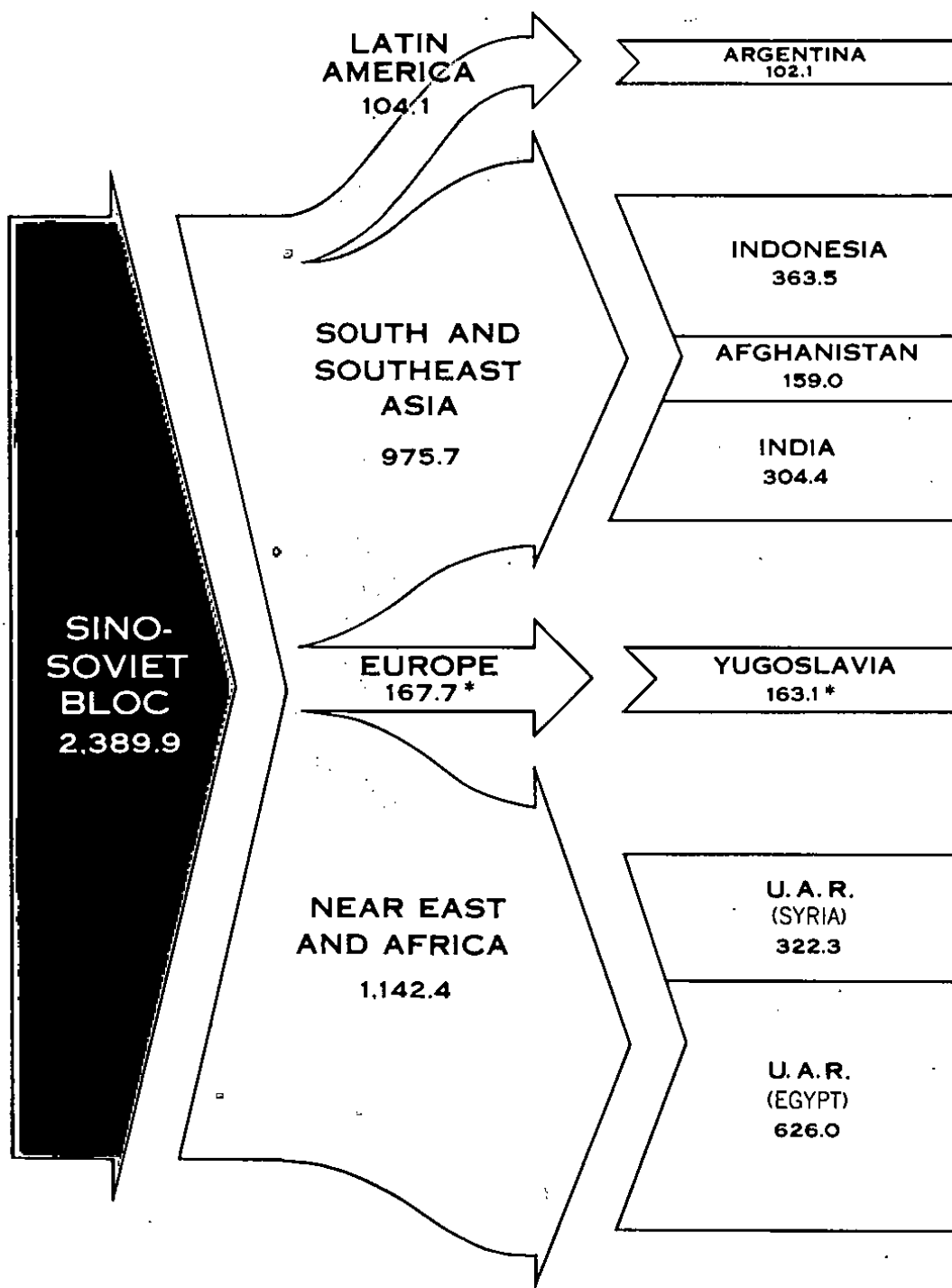
	Million US \$		
	<u>Extended</u>	<u>Obligated</u>	<u>Drawn</u>
Economic credits and grants	1,610	1,046	404
Military credits	780	780	500
Total	<u>2,390</u>	<u>1,826</u>	<u>904</u>

\* For detailed data on extensions, obligations, and drawings of Bloc credits and grants, see Appendix A, Table 14, p. 48, below.

\*\* Following p. 18.

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Figure 2 50X1

**CREDITS AND GRANTS EXTENDED TO UNDERDEVELOPED COUNTRIES  
OF THE FREE WORLD BY THE SINO-SOVIET BLOC****1 January 1954 - 31 December 1958****MILLION US DOLLARS**

50X1

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The Bloc credit program has expanded significantly since 1954, when less than \$11 million in credits were extended. During 1955 the Bloc provided about \$340 million in credits, and in 1956 more than about \$720 million in credits and grants were extended to the underdeveloped countries. After a lag of several months in late 1956 and early 1957, the Bloc extended additional credits, so that during the entire year of 1957 about \$290 million in credits and grants were provided. New credits extended by the Bloc during 1958 amounted to more than \$1 billion, of which more than 40 percent was for arms purchases (see Table 5).

Table 5

Credits and Grants Extended by the Sino-Soviet Bloc  
to Underdeveloped Countries of the Free World, by Year  
1954-58

	Million US \$					
	<u>1954</u>	<u>1955</u>	<u>1956</u>	<u>1957</u>	<u>1958</u>	<u>Total</u>
Total Sino-Soviet Bloc	10.8	338.8	718.2 a/	290.1	1,032.0	2,389.9
USSR	5.8	115.5	542.7	249.5	708.2	1,621.7
European Satellites	5.0	223.3	120.1	20.6	280.2	649.2
Czechoslovakia	5.0	214.6	90.9	15.6	82.7	408.8
East Germany	0	8.7	2.9	2.3	30.1	44.0
Poland	0	0	23.2	0	155.5	178.7
Other Satellites (Bulgaria, Rumania and Hungary)	0	0	3.1	2.7	11.9	17.7
Communist China	0	0	55.4	20.0	43.6	119.0

a.. This figure does not include credits extended to Yugoslavia by the USSR and East Germany in 1956 and suspended in 1958. The unutilized portion of these credits amounted to about \$244 million. Czechoslovak credits, the unutilized portions of which amounted to \$57 million when they expired at the end of 1958, also have not been included in this summation.

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Egypt, Yugoslavia, India, Syria, Afghanistan, and Indonesia have been the principal recipients of Bloc credits and grants, together accounting for more than 80 percent of the total extended (see Table 6). Egypt has received in excess of \$600 million in credits from the Bloc, Indonesia more than \$350 million, India and Syria about \$300 million, Yugoslavia more than \$160 million, and Afghanistan more than \$150 million. Thirteen other countries account for the remaining 20 percent.

Table 6

Credits and Grants Extended by the Sino-Soviet Bloc  
to Underdeveloped Countries of the Free World, by Recipient Country  
1 January 1954 - 31 December 1958

Recipient Country	Million US \$		
	Economic Credits and Grants	Military Credits	Total Credits and Grants
Middle East and Africa	<u>564.7</u>	<u>577.7</u>	<u>1,142.4</u>
Egypt	311.0	315.0	626.0
Ethiopia	2.0	0	2.0
Iran	2.3	0	2.3
Iraq	0	118.0	118.0
Syria	194.6	127.7	322.3
Turkey	12.5	0	12.5
Yemen	42.3	17.0	59.3
South and Southeast Asia	<u>773.8</u>	<u>201.9</u>	<u>975.7</u>
Afghanistan	126.6	32.4	159.0
Burma	44.2	0	44.2
Cambodia	34.0	0	34.0
Ceylon	58.0	0	58.0
India	304.4	0	304.4
Indonesia	194.0	169.5	363.5
Nepal	12.6	0	12.6
Europe	<u>167.7</u>	<u>0</u>	<u>167.7</u>
Iceland	4.6	0	4.6
Yugoslavia	163.1	0	163.1
Latin America	<u>104.1</u>	<u>0</u>	<u>104.1</u>
Argentina	102.1	0	102.1
Brazil	2.0	0	2.0
Total	<u>1,610.3</u>	<u>779.6</u>	<u>2,389.9</u>

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The USSR has undertaken the greatest share of the Bloc credit program, providing about \$1.6 billion of the total \$2.4 billion extended. About \$360 million of Soviet credits have been extended for arms purchases and about \$1.3 billion for economic development purposes. Soviet credits, for the most part, represent general lines of credit under which separate agreements are negotiated for Soviet equipment and technical assistance for specific industrial projects.

Before 1956 the only large Soviet credit was one of \$115.5 million extended to India for the construction of a 1-million-ton steel mill at Bhilai. During 1956, large economic assistance credits were extended to Yugoslavia, India, Afghanistan, and Indonesia, and in 1957 the USSR agreed to assist Syria and Egypt in their economic development programs. Two large Soviet economic credits were extended in 1958 -- one to Argentina for petroleum development equipment and one to Egypt to cover part of the costs of the first phase of the Aswan High Dam. In 1958, however, the USSR announced its decision to suspend for a period of 5 years utilization of the remaining \$245 million large developmental credits to Yugoslavia.

Although less than one-half of Bloc arms credits have been furnished under agreements with the USSR, a larger proportion of arms deliveries has come from the USSR. The first direct arms agreement of the USSR was signed with Syria in November 1956, and since then two others, the most recent in 1958, have been signed. Credits under the 3 arrangements amount to \$92 million. 3/ In 1958, Egypt arranged for the USSR to continue arms shipments under additional credits estimated at \$100 million, and Iraq received a Soviet arms credit of \$118 million. 4/

The European Satellites have extended about \$650 million in credits to underdeveloped countries. Czechoslovakia, Poland, and East Germany have been the most active participants. Satellite credits usually have been extended to cover foreign-exchange costs of specific projects rather than as general lines of credit, which is the practice of the USSR.

In contrast to the Soviet credits to underdeveloped countries, more than one-half of the Satellite credits were extended for arms purchases. Czechoslovakia has provided the major part of the arms credits, most of which were extended to Indonesia, Egypt, and Syria. Poland also has extended substantial arms credits to Indonesia.

Communist China has extended about \$119 million in aid to underdeveloped countries during the period 1956-58. The Chinese Communist aid program has differed from that of the rest of the Bloc in that more than one-half of its aid has been in the form of grants. The extension of long-term loans was not initiated by Communist China until the end of 1957.

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Communist China concluded its first economic aid agreement with Cambodia in mid-1956. Since then, other grants have been made to Egypt, Nepal, and Ceylon, all of which have been small. Credits have been extended during the past year to Burma, Yemen, and Indonesia.

## 2. Obligations Under Credits and Grants.

Of the \$2.4 billion in credits and grants which have been extended by the Sino-Soviet Bloc, about \$1.8 billion have been obligated for specific use. Obligations from the major components of the Bloc include the following: the USSR, \$1.1 billion; the European Satellites, \$625 million; and Communist China, \$92 million. Of the total obligated, about \$1 billion represent economic credits and grants and \$780 million (the total extended) represent military credits.

Arrangements have been made to utilize several of the large Bloc economic credits. By mid-1956, contracts had been signed which obligated the entire Soviet credit for the steel mill at Bhilai, India, and most of the \$100 million Soviet line of credit to Afghanistan. 5/ In November 1957 the USSR and India reached agreement on the utilization of the Soviet \$126 million credit even though it is not to be drawn upon until 1959. 6/ Commitments totaling about \$16 million have been agreed to under the terms of the \$100 million Soviet credit to Indonesia. The entire \$100 million Soviet credit to Egypt for financing construction of parts of the Aswan Dam has been obligated.

By the end of 1958, about \$560 million in Bloc credits and grants had not yet been obligated for specific uses, nor had their utilization been arranged for under firm contracts. This amount included the major part of the Soviet economic credits to Syria and Egypt and the East German credits to Egypt and in addition almost \$30 million in Bloc credits to Afghanistan, \$32 million to Burma, and \$30 million to Ceylon.

## 3. Drawings on Credits and Grants.

By the end of 1958, underdeveloped countries had drawn on Bloc credits and grants for an estimated minimum of \$904 million, of which \$500 million had been drawn to finance arms purchases from the Bloc. Actual drawings may be somewhat higher, for there are some projects for which Bloc equipment and technical assistance have been provided but for which the value cannot be estimated. Approximately 30 percent of Bloc exports including arms have been financed by drawing on credits and grants each year since 1956 and about 12 percent of Bloc exports excluding arms in 1956 and 1957. It appears that a somewhat higher proportion of Bloc nonmilitary exports, nearly 20 percent, have been paid for by drawings on credits and grants in 1958.

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Of the total drawn, \$458 million had been drawn from Soviet credits, \$402 million for European Satellite credits, and \$44 million from Chinese Communist credits and grants. Almost the entire amount drawn from Satellite credits was for arms purchases, and about 60 percent of the amounts drawn from Soviet credits was utilized by India, Yugoslavia, and Afghanistan for economic development purposes. Yugoslavia made particularly large drawings during 1958, including at least \$40 million from the investment credit of \$110 million which was suspended in June 1958. India has drawn almost \$110 million for the importation of Soviet equipment and structural steel for the Bhilai steel plant. About \$30 million were drawn by Afghanistan from the \$100 million Soviet credit, in part to pay for project surveys and salaries of Soviet personnel. More than \$7 million were drawn by Afghanistan from Bloc credits extended in 1954 and 1955. Indonesia has drawn about \$15 million of the \$100 million Soviet credit to finance purchase of 12 ships and of a shipment of textiles. 7/

Cambodia has received aid goods amounting to the equivalent of \$8.5 million promised under the \$22.4 million Communist Chinese grant. Nepal has received two cash contributions amounting in total to the equivalent of \$4.2 million under the \$12.6 million Chinese Communist grant agreement of October 1956. Communist China will deliver the remainder in goods during the next two years.

#### 4. Bloc Developmental Projects in Underdeveloped Countries.

It is estimated that in the period 1954 through mid-1958 the Bloc was involved in 158 developmental projects in underdeveloped countries of the Free World. From available information it is estimated that at least 55 industrial projects had been completed by mid-1958, another 55 were in various stages of construction, 16 projects were still in the survey stage, and 12 others had been postponed (see Table 7\*). The status of 20 projects, including several which were contracted for in recent months, is unknown.

These developmental projects encompass a variety of construction activities. Primarily, they involve the supply of entire factory installations. In some cases, however, only machinery and equipment from the Bloc are involved. Bloc participation is involved in electrification projects, in the development of roads and ports, in the construction of bridges, and in petroleum exploration programs.

Some portion of the cost of approximately one-half of the projects has been financed under Bloc credits. This is particularly true for the projects being undertaken by the Bloc in the countries of

\* Table 7 follows on p. 24.



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Table 7

Summary of Status of Sino-Soviet Bloc Developmental Projects  
in Underdeveloped Countries of the Free World  
as of 30 June 1958

<u>Status of Projects</u>	<u>Total</u>	<u>Africa and Middle East</u>	<u>South and Southeast Asia</u>	<u>Europe</u>	<u>Latin America</u>
Completed	55	38	16	1	0
Under construction	55	33	18	3	1
Survey	16	6	10	0	0
Unknown	20	9	11	0	0
Postponed	12	0	9	3	0
Total	<u>158</u>	<u>86</u>	<u>64</u>	<u>7</u>	<u>1</u>

South and Southeast Asia. It is believed that most of the remaining projects are being paid for through normal trade channels, although it is possible that some projects are being financed under short-term credits.

Bloc activity has been most heavily concentrated in the countries of the Middle East. Of 86 developmental projects undertaken, 38 have been completed. Bloc assistance has been employed in these countries primarily for the construction of such small-scale industrial installations as textile mills, cement plants, sugar factories, and ceramics plants. At least 7 cement factories, 11 sugar refineries, and 4 textile factories are being built by or with the aid of the Bloc. Many of these plants are believed to have been completed and to be now in operation. In addition, the Bloc has been engaged in electrification projects in Egypt and in the construction of bridges in Egypt and Iran. The most ambitious Bloc projects in the area are the petroleum refinery being built at Homs, Syria, with Czechoslovak assistance and a power station being built at El Tabbin, Egypt, with Hungarian assistance. The power station appeared to be completed at the end of March 1958, but the Homs refinery is still under construction.

In South and Southeast Asia the Bloc has undertaken 55 developmental projects. More than two-thirds of these projects are in India and Afghanistan. In Afghanistan, work has been completed on the following projects: road paving in Kabul and construction of grain elevators, a bakery, a flour mill, and a cement plant. The USSR and Czechoslovakia are currently working on 14 projects including the

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construction of several airfields, petroleum storage tanks, the Salang Pass road, a machine shop complex at Jungalot, and the Karkar coal mines. Preliminary surveys have been made by the USSR and Czechoslovakia for 13 additional projects, but 4 of these have been postponed indefinitely. In India, construction on the Bhilai steel plant -- the largest single project undertaken by the Bloc in any Free World underdeveloped country -- progressed satisfactorily, and the plant has gone into partial operation. Preliminary surveys have been made for the heavy industry installations which are to be financed under a \$126 million Soviet credit. The European Satellites have contracted to build in India several sugar factories, several cement factories, and a powerplant.

In Burma the USSR has started work on a technological institute, a hospital at Taunggyi, and a hotel at Rangoon. Work has been postponed on two irrigation dams which were originally scheduled to be built with Soviet assistance. In Indonesia the sugar mill constructed at Jogjakarta with East German financial and technical assistance was completed in July 1958 but was shut down almost immediately for extensive repairs, which have not yet been completed. A tire factory being constructed by Czechoslovakia was completed in mid-1958 and is now in operation.

In Yugoslavia the Bloc had agreed to undertake 4 industrial projects, but the Soviet decision to suspend for 5 years utilization of 2 large developmental credits to Yugoslavia will affect the construction of 3 of these projects -- an aluminum combine, a coal mining combine, and a nitrogen fertilizer plant.

##### 5. Repayment Terms of Major Soviet Bloc Credits.

The USSR apparently has evolved a pattern of repayment terms under which Soviet economic credits are to be repaid in 12 annual installments.\* The major exceptions have been economic credits to Afghanistan and Yugoslavia, extended in 1956, which call for 22 and 10 annual installments, respectively. The European Satellites (who for the most part have extended smaller credits for specific projects) have required shorter periods for repayment.

Soviet Bloc credits, with repayment in 12 annual installments, have in general a shorter time period than Western development loans. Major Soviet agreements, however, do provide a period of grace before the first payment is due. Indonesia has been allowed a 3-year grace period, and Afghanistan an 8-year grace period, on their \$100 million credits. Soviet agreements with Syria, Egypt, India, and Ceylon

\* For a summary of the terms of repayment of the major assistance agreements of the Soviet Bloc, see Appendix A, Table 15, p. 50, below.

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provide for repayment to begin 1 year after delivery of all machinery and equipment for any project.

Soviet credits typically carry an interest rate of 2.5 percent. The exceptions are the \$100 million credit to Afghanistan and the credit to Yugoslavia, which provide for 2 percent interest. Satellite economic credits carry interest rates of 3 to 4 percent and, in one instance, 6 percent.

The USSR in some cases differentiates between interest payments and repayment of the principal. Although the Indonesian agreement provides for a 3-year grace period for repayment, no such grace period is permitted for payment of interest. The texts of the Indonesian, the Syrian, and the Indian Bhilai steel mill agreements indicate that the payment of the interest installment is to be made in the first quarter following the year in which the drawing is made.

Most Soviet economic agreements provide for repayment in commodities or in convertible currencies, but the determination of which is to be used and under what conditions is not expressly stipulated. The willingness of the USSR to take commodities in repayment is especially attractive to underdeveloped countries, many of which have difficulty disposing of their principal export products.

The agreements generally provide for annual negotiations in the future to establish commodity lists, prices, and quantities of goods to be delivered in repayment as well as for the proportion of goods and convertible currency for each annual installment. It is not clear just how these provisions will be interpreted, and evidence of the limited experience with respect to repayment of Soviet credits gives little indication of the way in which these terms will be carried out. They obviously leave a large area for later bargaining, which may become a source of friction, although the USSR may also use the negotiations as an opportunity for politically motivated "generosity."

There is less firm information available regarding the Soviet Bloc military aid credits than on the economic credits. The Soviet and Czechoslovak military agreements signed with Egypt, Syria, and Afghanistan involve repayment terms which vary from the terms for repayment of economic credits. The credits to Syria and Egypt provide for repayment in commodities over a period of 5 years and the credit to Afghanistan, 8 years. The interest rate for the 3 agreements is believed to be 2 percent.

In early 1957 a Syrian request for a postponement of the payment of the first installment on the arms debt to Czechoslovakia resulted in a postponement of repayment of the entire principal from

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3 to 7 years. There is no indication, however, that the interest payments were postponed.

B. Bloc Technical Assistance.

In the last half of 1958, about 4,000 Bloc specialists were present in 20 underdeveloped countries of the Free World (see Table 8\* and Figure 3.\*\*). This number represented an increase of about two-thirds, or about 1,600, above 1957. Substantial increases above 1957 took place in India, Burma, Syria, Yemen, Afghanistan, and Indonesia. These specialists were working on a contract basis for a period of 1 month or more, primarily in connection with implementation of the Bloc credit program. Services of Bloc technicians generally are paid for by the underdeveloped countries through their bilateral clearing accounts. It is likely that in many cases sums corresponding to the cost of the technical services are credited to the clearing accounts of underdeveloped countries as drawings on Bloc loans.

Approximately 2,800, or about 70 percent, of the Bloc specialists were industrial, agricultural, or other professional personnel. The remaining 1,200, or about 30 percent, of the Bloc specialists were military technicians and advisers present in 6 underdeveloped countries. An influx of military specialists in Egypt, Syria, and Indonesia accounted for most of the increase above the estimated minimum total of 820 military personnel present in 1957.

Since 1955, approximately 3,200 military trainees and students from underdeveloped countries have gone to the Bloc for study and training for periods ranging from several months to as long as 6 years. Of these, about 1,000 have enrolled for advanced training in universities or other institutions.

1. Bloc Industrial, Agricultural, and Professional Specialists in Underdeveloped Countries.

It is estimated that there were a minimum of about 2,800 Bloc industrial or agricultural experts or other professionals in underdeveloped countries of the Free World during the last half of 1958. This minimum represented an increase of 1,200 above 1957. They were located chiefly in the Middle East and in South and Southeast Asia. Soviet nationals comprised the majority of these nonmilitary technicians and advisers and were largely concentrated in Afghanistan, Indonesia, India, Egypt, Syria, and Burma (see Table 9\*\*\*). Technicians from the European Satellite countries were present in several countries,

\* Table 8 follows on p. 28.

\*\* Following p. 28.

\*\*\* Table 9 follows on p. 29.

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Table 8

Sino-Soviet Bloc Specialists in Underdeveloped Countries  
of the Free World, by Area and Country a/  
1 July - 31 December 1958

<u>Area and Country</u>	<u>Total</u>	<u>Military</u>	<u>Industrial, Agricultural, and Professional</u>
Middle East and Africa	<u>2,105</u>	<u>995</u>	<u>1,110</u>
Egypt	1,165	630	535
Ethiopia	25	0	25
Greece	5	0	5
Iran	10	0	10
Iraq	25	25	0
Syria	540	265	275
Turkey	60	0	60
Yemen	275	75	200
South and Southeast Asia	<u>1,810</u>	<u>215</u>	<u>1,595</u>
Afghanistan	665	65	600
Burma	85	0	85
Cambodia	50	0	50
Ceylon	35	0	35
India	550	0	550
Indonesia	420	150	270
Pakistan	5		5
Latin America	<u>45</u>	<u>0</u>	<u>45</u>
Argentina	45	0	45
Brazil	<u>b/</u>	0	<u>b/</u>
Chile	<u>b/</u>	0	<u>b/</u>
Mexico	<u>b/</u>	0	<u>b/</u>
Western Europe	<u>10</u>	<u>0</u>	<u>10</u>
Yugoslavia	10	0	10
Grand total	<u>3,970</u>	<u>1,210</u>	<u>2,760</u>

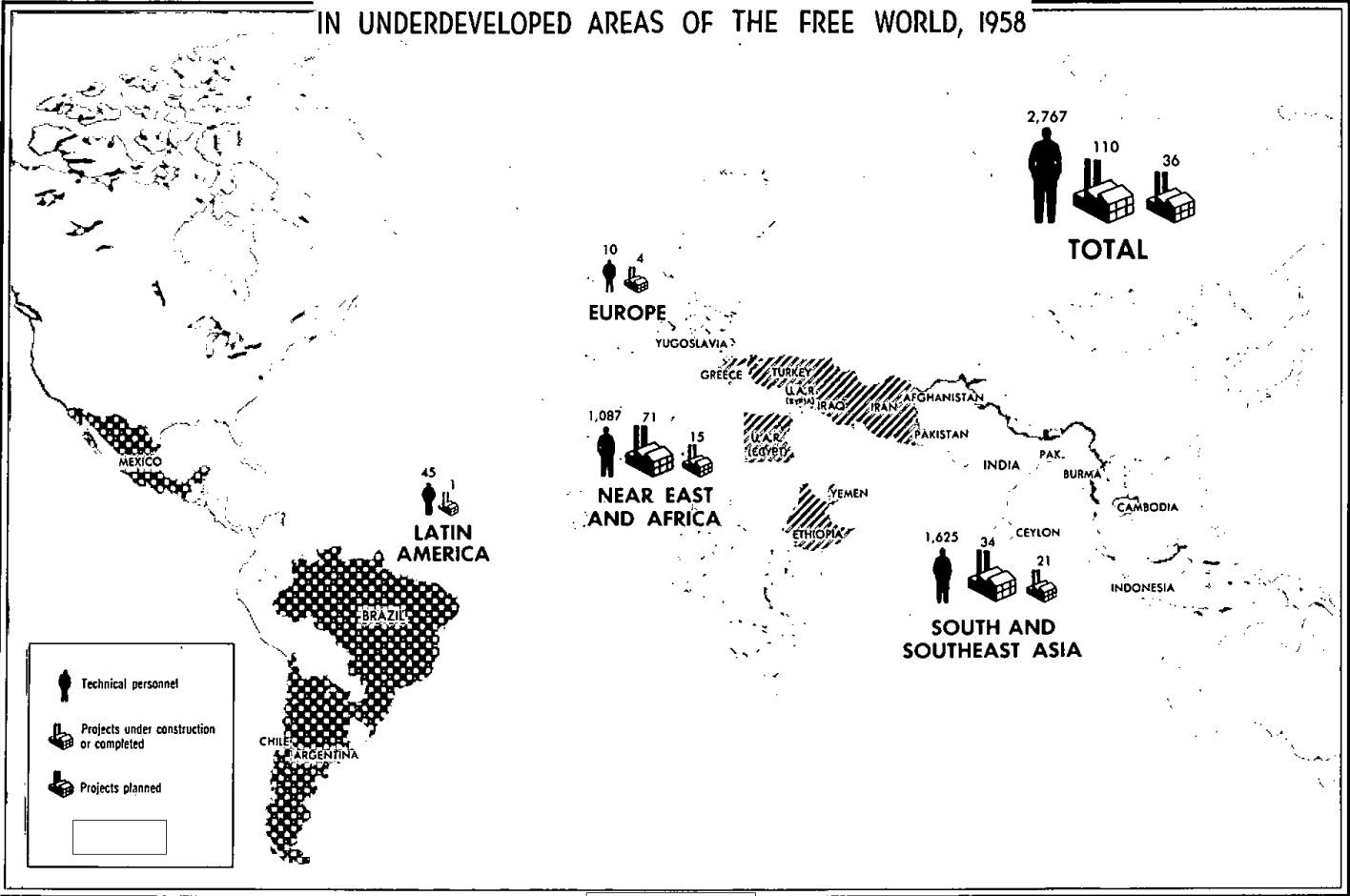
a. Minimum estimates of personnel working on a contract basis for a period of 1 month or more during the period 1 July - 31 December 1958. Personnel engaged solely in trade promotional activities are excluded.

b. One or two Bloc specialists believed to be present.

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Figure 3 50X1

SINO-SOVIET BLOC TECHNICAL PERSONNEL AND PROJECTS  
IN UNDERDEVELOPED AREAS OF THE FREE WORLD, 1958



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Table 9

Sino-Soviet Bloc Specialists in Underdeveloped Countries  
of the Free World, by Country of Origin a/  
1 July - 31 December 1958

<u>Bloc Country of Origin</u>	<u>Total</u>	<u>Military</u>	<u>Industrial, Agricultural, and Professional</u>
USSR	2,685	930	1,755
Czechoslovakia	620	270	350
East Germany	235	0	235
Other European Satellites	345	10	335
Communist China	85	0	85
Total	<u>3,970</u>	<u>1,210</u>	<u>2,760</u>

a. Minimum estimates of personnel working on a contract basis for a period of 1 month or more during the period 1 July - 31 December 1958. Personnel engaged solely in trade promotional activities are excluded.

particularly Egypt, Syria, and Indonesia. Communist China had limited numbers of personnel in Burma, Cambodia, Ceylon, Indonesia, and Yemen.

The Bloc furnished specialists in a variety of fields: heavy and light industry, transportation and communications, electric power, irrigation, agriculture, and mineral development. The majority of Bloc specialists were working on specific industrial or technical projects. Others were conducting surveys and making cost estimates for projects in the planning stage. Bloc technicians also were engaged in training local personnel in the operation of completed projects and acting in advisory capacities in ministries of some recipient governments. A few professionals have been furnished in the fields of education and medicine.

In South and Southeast Asia, industrial development projects continued to account for the major portion of Bloc specialists. The Bhilai steel mill and petroleum development projects in India; a sugar mill, a tire factory, and hydroelectric plants in Indonesia; construction of a technological institute and various irrigation and agricultural projects in Burma; a hospital and a radio station in Cambodia; an airfield and petroleum and other industrial surveys in Afghanistan were the major projects being undertaken in the last half of 1958. In Afghanistan, large numbers of Soviet technicians were instructing Afghan

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personnel in the operation of the flour mill - bakery complex in Kabul and were engaged in aerial mapping of northern Afghanistan. Czechoslovak technicians were training Afghans in the operation of a cement plant completed in 1957.

Most of the 325 Soviet merchant marine officers and crewmen who arrived in Indonesia during the first half of 1958 to deliver Soviet merchant ships have returned to the USSR. Approximately 60 officers and radio operators remained in Indonesia, however, to train indigenous personnel for eventual manning of the vessels. A Polish offer to provide 30 merchant marine officers has been accepted by Indonesia. These officers are expected to assist in the operation of the Indonesian shipping industry.

In the Middle East, Bloc technicians were concentrated in Egypt, Syria, and Yemen. In Egypt, technicians were engaged in the construction of oil-storage tanks, several powerplants, a cement plant, an atomic research laboratory, and several bridges. Approximately 75 Soviet experts were engaged in work on the Egyptian Five Year Plan. The first group of about 20 experts arrived in October in connection with the Aswan Dam project. 8/ In Syria, Bloc technicians were engaged in the construction of military airfields, a petroleum refinery, cement plants, and sugar mills and in other construction projects. In Yemen, Soviet technicians were working to improve harbor facilities and to construct airfields and were conducting petroleum surveys. Czechoslovak technicians were conducting preliminary surveys for various industrial projects, and about 30 Chinese Communist technicians were making road surveys. In Iran, about 100 Soviet personnel completed dredging operations at an Iranian port on the Caspian Sea. In Turkey, small groups of Bloc technicians were engaged in the construction of powerplants, installation of machinery for textile plants, and other small industrial projects.

In Latin America, there were small groups of Bloc technicians whose primary concern was the installation and maintenance of equipment which had been purchased commercially from the Bloc.

In Yugoslavia, most Bloc advisers have been withdrawn as a result of the current ideological dispute and the suspension of developmental projects. A small group of Soviet personnel is believed to be present at the site of the nuclear reactor which is to be delivered by the USSR.

Bloc technicians have, in the main, been well received by recipient countries, and generally they have not attempted political indoctrination. Barring occasional language difficulties, Bloc technicians have performed effectively in their fields of specialization.



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2. Technical Training Program.

Along with an increasing flow of economic assistance, the Soviet Bloc has extended numerous scholarship offers to students in underdeveloped countries. About 1,000 students from these countries are now studying in the Bloc. The USSR has indicated plans to expand its training program for such students by announcing in the UN in November 1957 that it was prepared to receive 1,000 students and trainees; however, so far fewer than 100 of these scholarships have been assigned. In addition, it is estimated that 2,000 overseas Chinese from South and Southeast Asia traveled to Communist China in 1958 for educational purposes financed in large part by China, about one-half the number in previous years. Most of those who receive technical training remain in Communist China. Czechoslovakia, East Germany, and Poland have been the most active of the East European Satellites in extending scholarships to students and professionals from underdeveloped countries for technical training. Many more scholarships reportedly are offered to underdeveloped countries than actually are accepted by them.

The most impressive Bloc training program is being undertaken by the USSR in connection with the Bhilai steel mill in India. The training of about 700 Indians in Soviet steel plants, financed by a Soviet contribution to the UN Technical Assistance Fund, is now being implemented. About 171 of the 240 Indians already sent to the USSR under this program have returned and are now working at Bhilai. In addition, 4,000 Indians are scheduled to receive on-the-site training at Bhilai, which is expected to employ 7,500 when the plant goes into production in 1960. 9/

The Bombay Technological Institute in India, which was erected under UNESCO auspices, was completed in July. Fifteen Soviet professors assigned to the institute have arrived for a term of 5 years. An agreement was concluded in December under which the USSR will supply to the institute during 1959 and 1960 equipment for laboratories of physics, electrotechnology, radio technology and television, electronics, and geodesy and central laboratories for scientific and technological work. 10/ Construction has begun on the Technological Institute in Burma, which has received a high Soviet priority and is scheduled for completion in 1960.

3. Nuclear Energy.

The USSR has been extending numerous offers of aid for the development of atomic energy to underdeveloped countries. In many instances these offers were made by Soviet officials on well-publicized visits to underdeveloped countries, and there was no specific followup. Agreements concluded with Yugoslavia and Egypt, however, are now being implemented.

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A nuclear reactor and equipment have arrived in Egypt for the atomic research laboratory being built by the USSR. Construction is progressing at the center, and it appears likely that the reactor will be in operation in 1959. The exchange of personnel is now under way. Egypt has 25 students in Moscow for a 5- to 6-year course in atomic energy, and it is expected that additional groups of technicians will be trained for shorter periods. It is anticipated that Soviet scientists will remain in Egypt for several years to guide laboratory operations.

In Yugoslavia the USSR, aided by Yugoslav technicians, has given scientific and technical aid in planning and constructing a nuclear reactor and has provided the necessary equipment and nuclear fuel. It was expected that the reactor would be completed by the end of 1958, but this target date was not met.

Soviet offers of scholarship aid for training in atomic energy have been made to several underdeveloped countries. Attempts apparently are made to tailor the offers to the capability of the recipient country to utilize the training. Few Soviet offers have been accepted to date, largely because of a preference for US or UN programs.

The USSR through UNESCO has offered Syria five scholarships for the study of nuclear physics in the USSR, but these have not yet been accepted. In other cases the offers through UNESCO have been accepted, and the students are now studying in Moscow. Four Afghan students are studying in the USSR at the expense of the Soviet government. These students will be able to service Soviet equipment that is to be given through UNESCO to the Science Faculty of Kabul University.

The most notable Soviet efforts in the field of nuclear cooperation through international agencies have appeared in the UN-sponsored International Atomic Energy Agency (IAEA). The USSR announced in April that it will assign 30 atomic scientists and technicians to help any country which applies for aid in planning for peaceful uses of atomic energy. The experts are to receive their assignments through the IAEA, in which many underdeveloped countries have membership. The USSR also has offered to provide training for 50 students in the 1958/59 academic year for terms of 3 to 6 months in nuclear professions, 20 of them at the USSR's expense. 11/

#### 4. Bloc Military Specialists and Military Training.

The Soviet Bloc had a minimum of 1,210 military technicians and advisers in Egypt, Syria, Yemen, Afghanistan, Iraq, and Indonesia during the last half of 1958. The number of military technicians in these countries represented an increase of about 400 above 1957 and is

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chiefly accounted for by an influx of Soviet military technicians in Egypt, Syria, Iraq, and Indonesia.

Bloc military specialists sent to these countries provide training in the use and maintenance of a wide variety of military armaments, ranging from light machine guns to late-model jet aircraft. Soviet officers also are instructing in military tactics and advising at the senior military level.

Soviet military technicians in Egypt are completing workshops and shore installations for a naval training base at Abu Qir near Alexandria and are engaged in the construction of shore installations in the Alexandria port area.

About 125 Soviet technicians are attached to the Egyptian Air Force in various training programs.

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Soviet military technicians have been in Syria assembling Soviet T-54 tanks and training Syrians in their operation. Soviet officers have been assigned to advisory posts in the Syrian army and to units in the field. Their mission has been the reorganization of the Syrian army and instruction in the use of Bloc military equipment.

It is estimated that a minimum of 120 Soviet and 30 Czechoslovak military personnel have arrived in Indonesia to train local military personnel in the operation and maintenance of aircraft and other types of arms recently purchased from Soviet Bloc countries. Soviet specialists are instructing local personnel in the use and maintenance of nearly 4,000 Soviet jeeps and weapons carriers delivered to Indonesia during the past year. In conjunction with arms contracts between European Satellites and Indonesia, about 50 Indonesians have been sent to Czechoslovakia for pilot training, and arrangements have been made to give additional pilot training to a group of Indonesians in Poland.

The USSR is providing military training assistance at three centers in Afghanistan. Soviet instructors are conducting 3-month weapons courses in Kabul, tank and military transportation courses at Herat, and courses for the Afghan Air Force school at Mazar-i-Sharif.

In Yemen, Russians and Czechoslovaks are assembling military equipment and instructing in its use. In Iraq, Soviet officers have been training Iraqi troops in the use and maintenance of Bloc military equipment included under the Iraqi-Soviet arms agreement of October 1958.

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Egypt, Syria, Afghanistan, and Indonesia have sent about 1,950 military trainees to the Bloc since 1955 (see Table 10). Courses of instruction have included many phases of ground, air, and naval training and were undertaken primarily in Poland, the USSR, and Czechoslovakia. Poland, which has provided training facilities for more than one-third of the personnel trained, has been the site of nearly all the naval training undertaken. Czechoslovakia has been a major site for flight training and has provided courses in flight instruction and operational tactics for fighter and bomber pilots. The USSR has provided a considerable amount of training in land armaments, submarines, and aircraft but, probably as a result of the early reluctance of the USSR to be directly associated with arms agreements, did not become a major location for military training until 1957. Most of the training has been for short periods, usually less than 6 months, but in 1957 the USSR began to emphasize training involving periods of 1 year or more.

Table 10

Non-Bloc Military Trainees in Bloc Countries a/  
1955-58

<u>Country</u> <u>Providing Training</u>	<u>Number</u>	<u>Country</u> <u>Sending Trainees</u>	<u>Number</u>
USSR	690	Egypt	345
		Syria	295
		Afghanistan	50
Poland	725	Egypt	460
		Syria	65
		Indonesia	200
Czechoslovakia	485	Egypt	310
		Syria	25
		Indonesia	150
Bulgaria	45	Egypt	20
		Syria	25
East Germany	5	Syria	5
Total	<u>1,950</u>		<u>1,950</u>

a. Cumulative figures as of 31 December 1958.

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C. Bloc Trade with Underdeveloped Countries.1. Volume and Pattern of Trade, 1955-57.

Trade between the Sino-Soviet Bloc and underdeveloped countries of the Free World has expanded by an average of about 25 percent each year between 1954 and 1957 but is still very small compared with the trade between these areas and their Western trading partners.\* Bloc commerce with these areas has consistently been less than 5 percent of exchanges between principal Western nations and the underdeveloped countries (see Table 11). In 1957, for example, Bloc trade with underdeveloped countries amounted to \$1.8 billion, whereas the value of trade between these countries and major Western trading nations totaled more than \$40 billion. The Netherlands alone carried on as much trade with the underdeveloped countries as did the entire Sino-Soviet Bloc.

Table 11

Trade of Underdeveloped Countries of the Free World  
with Western Developed Countries,  
with the US, and with the Sino-Soviet Bloc  
1954-57

Million US \$			
Trade of Underdeveloped Countries			
Year	With Western Developed Countries a/	With the US	With the Sino-Soviet Bloc
1954	32,894.1	11,349.2	870.4
1955	35,244.4	12,035.0	1,230.2
1956	38,655.8	13,509.8	1,465.9
1957	42,589.0	13,890.0	1,763.0

a. Including the following: Australia, Austria, Belgium-Luxembourg, Canada, Denmark, West Germany, France, Japan, the Netherlands, New Zealand, Norway, Sweden, Switzerland, the UK, and the US.

\* All trade data cited in this report, except when specifically noted otherwise, have been obtained from official Free World sources. Thus arms shipments are not included in these computations. For detailed data on Sino-Soviet Bloc trade with underdeveloped areas of the Free World, see Appendix A, Table 16, p. 53, below.

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Available data on trade for 1958 suggest that the Bloc experienced a general leveling off in the value of its trade with underdeveloped countries of the Free World. Bloc trade with these areas during the first 6 months of 1958 was only 3 percent greater than during the comparable period for 1957, and, although Bloc exports rose during the period, the expansion was nearly offset by a 7-percent decline in imports. Adjustments in world market prices, however, appeared to account in part for this development, in particular for the decline in Bloc imports. Prices of sugar, rubber, cotton, and wool, for example, fell substantially below the average for 1957, and, as these items are principal components of Bloc imports from underdeveloped countries, the value of their imports from these areas fell accordingly. Thus, although the value of Bloc trade with these areas apparently increased modestly in 1958, the volume of trade probably rose more substantially.

Nevertheless, after accounting for price changes, it seems apparent that in 1958 Bloc trade with underdeveloped countries increased at a rate substantially below the average of 25 percent of the previous 4 years. It is possible that the reduced rate of expansion will persist, for the past high rate of growth has been in part a consequence of the relatively low level of trade when the offensive began. Additional data on trade for 1958 as well as on developments in 1959 will be required for verification of this hypothesis.

It does not seem likely at this time, however, that the future rate of expansion will be substantially less than in the 1954-57 period, for in other respects the Bloc drive has lost little of its initial momentum. Moreover, it appears that during the latter part of 1957 and through most of 1958 the Bloc trade drive was caught in the backwash of a general recession in foreign trade of the Free World; and especially of the underdeveloped countries. There are indications, for example, that as the demand for crude materials leveled off or declined in the Western developed countries, incomes in the countries exporting these commodities fell. As incomes fell, demand for a wide variety of goods also declined, including, in particular, imported items. The major impact of reduced demand for imports fell on Free World suppliers, and their share of total imports by underdeveloped countries accordingly declined. Imports by underdeveloped countries from other Free World countries dropped from \$10.0 billion during the first 6 months of 1957 to \$9.2 billion during the comparable period of 1958, whereas imports from the Bloc were rising from \$411 million to \$485 million. It is likely that, although less affected than Free World suppliers, Bloc countries were affected sufficiently by faltering demand for imports in underdeveloped areas that the momentum of their export drive was temporarily impeded. For, except for Yugoslavia, which accounted for more than 50 percent of the increase in imports

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from the Bloc, virtually all of the underdeveloped countries either failed to expand or actually reduced imports from the Bloc during the recession. Thus the reduced expansion of Bloc trade that began in late 1957 and continued in 1958 probably can be regarded as a consequence of developments in the Free World -- developments that presumably are transitory, but which if lasting might open up new possibilities for the Bloc to expand its trade with underdeveloped countries.

In spite of the substantial increase in Bloc trade with underdeveloped countries, these exchanges remain a relatively small part of total Bloc trade. About 5 percent of total Bloc trade was with underdeveloped countries in 1954 and about 8 percent in 1957. Thus, although the Bloc countries have been expanding trade rapidly in underdeveloped areas of the Free World, they also have been increasing commerce with the developed countries of Europe and with one another.

A notable development during recent years has been the increasingly important role played by the USSR in Bloc trade with underdeveloped areas.\* Although the European Satellites have consistently exchanged the largest volume of goods with underdeveloped countries, Soviet trade with these areas has expanded most sharply. Between 1954 and 1957, Soviet trade rose from about 25 percent to about 35 percent of the total Bloc trade with underdeveloped countries.

Sino-Soviet Bloc imports from underdeveloped countries have increased at about the same rate as exports (excluding arms) to these areas. The most noteworthy change in the pattern of Bloc imports from underdeveloped countries of the Free World is the large increase in imports from the Middle East. Soviet imports from the Middle East, primarily from Egypt, accounted in large part for this development.

On the export side, Bloc trade with underdeveloped areas has increased most sharply with South and Southeast Asia, a development due primarily to expanded Soviet exports to India and increasingly larger shipments of goods from Communist China to Indonesia and Malaya. Bloc exports to Latin America, on the other hand, have declined precipitously during the 3-year period, largely because of a sharp drop in trade with Argentina.

About 80 percent of total Bloc trade in underdeveloped areas is with only 16 countries. This pattern has been persistent since 1955, although there have been shifts within this group. For instance, Bloc trade with Brazil and Argentina has perceptibly declined since 1955, whereas exchanges with Egypt, Syria, Malaya, and Yugoslavia have significantly increased.

\* See Appendix A, Table 16, p. 53, below.

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Bloc trade amounted to 10 percent or more of the total trade of eight underdeveloped countries of the Free World during 1957 (see Table 12). More than 20 percent of the trade of Iceland, Yugoslavia, Egypt, and Afghanistan was with Bloc countries during 1957 and in each case represented a substantial increase above the Bloc's share in 1955. About 15 percent of the trade of Iran, Syria, and Turkey was with the Bloc in 1957. The Bloc's share of Syrian trade has increased tremendously since 1955 in consonance with the expanded economic relations with that country. Turkey's trade with the Bloc has fallen off in recent years as a result of Turkish efforts to reduce the perennial imbalance of trade in that direction. Trade data for Burma indicate that the Bloc share of Burmese trade declined from the 1956 level but was about 10 percent of total Burmese trade in 1957.

Table 12

Trade of Selected Underdeveloped Countries of the Free World  
with the Sino-Soviet Bloc and with the US, as a Percent of Total Trade  
1955-57

<u>Underdeveloped Country</u>	<u>1957</u>		<u>1956</u>		<u>1955</u>	
	<u>Bloc</u>	<u>US</u>	<u>Bloc</u>	<u>US</u>	<u>Bloc</u>	<u>US</u>
Afghanistan	40 <u>a/</u>	N.A.	N.A.	N.A.	N.A.	N.A.
Burma	11 <u>b/</u>	N.A.	16	1	12	1
Egypt	36	6	23	9	15	10
Greece	8	18	6	15	4	17
Iran	13	13	12	24	11	22
Iceland	33	12	28	15	24	18
Syria	12	9	5	6	2	8
Turkey	18	29	17	21	20	20
Yugoslavia	25	24	23	20	10	25

a. Trade statistics for Afghanistan are not published, but it is estimated that approximately 40 percent of Afghanistan's trade is with the Bloc.

b. Estimate based on incomplete data for 1957.

It is noteworthy that the eight underdeveloped countries that conduct 10 percent or more of their total trade with the Bloc are also the major recipients of Bloc credits. These countries have received approximately 60 percent of the grants and credits extended by

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the Bloc to underdeveloped areas since 1954. This fact reflects the concentration of Bloc trade and economic aid on target countries and the close relationship between the acceptance of Bloc assistance and increased dependence on Bloc trade.

2. Commodity Composition of Trade.

a. USSR.

More than 50 percent of Soviet exports to underdeveloped countries in 1957 consisted of manufactured goods, machinery, and transport equipment, compared with 29 percent in 1956 and 17 percent in 1953. Petroleum remained an important category in 1957 with 27 percent of total Soviet exports accounted for by this product -- approximately the same percentage as in 1956 but a significant increase from the 4 percent of total exports in 1953. Food, beverages, and tobacco accounted for most of the remainder. Wheat exports to Egypt and Yugoslavia and sugar exports to Iran were major specific items. The food category, although increasing in absolute terms, has shown a sharp relative decline from 74 percent of total Soviet exports in 1953 to 19 percent in 1957. Crude raw materials were relatively unimportant throughout the 1953-57 period, and only 7 percent of total exports fell within this class during 1957.

Soviet imports from underdeveloped countries consisted primarily of food and raw materials during 1957, when 87 percent of the total imports were accounted for by these two groups. Machinery and manufactured goods accounted for 13 percent of total imports in 1957. This pattern has characterized Soviet imports throughout the 1953-57 period. The crude materials category was dominated by cotton imports during 1957, when shipments of Egyptian cotton alone accounted for 55 percent of Soviet purchases of all raw materials. Other important raw materials were rubber from Malaya and Indonesia; wool from India, Iran, and Argentina; and hides and skins from Argentina and India. Agricultural imports were many and diverse but included substantial amounts of Cuban sugar, Egyptian rice, and Middle Eastern and Yugoslav tobacco.

b. European Satellites.

Trade with underdeveloped countries furnishes the Satellites with outlets for their increasing output of manufactured goods and with additional sources of needed raw materials. Machinery and manufactured goods were the principal items exported throughout the 1953-57 period. In 1953, 61 percent of all Satellite exports were in this group and 9 percent in an unspecified category. In 1957, machinery and manufactured goods had increased to 83 percent. Food, fuel, and crude materials together declined from about 30 percent of Satellite exports in 1953 to 19 percent in 1956 and 17 percent in 1957.

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Conversely, on the import side, food and crude materials constituted about 90 percent of total imports in 1957, a pattern that has been consistently maintained throughout the last 5 years. Cotton, primarily from Egypt, accounted for more than half of the 1957 total and rubber, wool, and hides for most of the remainder. The composition of European Satellite imports of agricultural products has varied somewhat from that of the USSR. Sugar imports were of little importance, some coffee was imported from Brazil, and tobacco has been a much more significant import for the European Satellites.

c. Communist China.

Communist China's principal export item to the underdeveloped areas is food products. The importance of this category, however, has declined from 80 percent of all exports in 1953 to 50 percent in 1956 and 47 percent in 1957. This decline has been paralleled by a growth in the importance of manufactured goods, principally textiles. This group accounted for about 11 percent of exports in 1953 but rose to 38 percent by 1957. Thus it appears that the industrialization program in China has had some impact on Chinese trade in Asia. It appears, nevertheless, that for the next few years China's interest will be in increasing trade with the industrialized nations in the Bloc and the Free World.

China's imports have been composed mainly of crude materials, 84 percent of all imports being represented by this group in 1957. Cotton and rubber made up about half of the raw material imports in that year. Food and related products composed the only other major group imported in 1957 and represented only 9 percent of the total. The pattern of commodity imports has been relatively unchanged in the period from 1953 through 1957.

IV. Comparison Between US and Bloc Economic Assistance to Underdeveloped Countries.

Any comparison between US and Bloc economic assistance to underdeveloped countries must be made with the awareness that the ultimate impact of foreign assistance on an underdeveloped country depends as much on the kind of program as it does on the amounts of credits and grants received. Thus the relative success of either the US or the Sino-Soviet Bloc program is largely a matter of qualities that are neither measurable nor wholly comparable.

In the 3-year period from 1 July 1955 to 30 June 1958, about \$2.0 billion in credits and grants for both economic and military purposes were extended to underdeveloped countries of the Free World by all Bloc countries combined. All types of US governmental long-term loan and

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grant commitments to underdeveloped areas during this period amounted to about \$10 billion.\* Moreover, US, West European, and international financial institutions as well as other Free World governments also provided loans and grants in various forms to underdeveloped countries (including dependencies) estimated to be about \$3.0 billion for this period.\*\* 13/ Total Free World aid to all underdeveloped countries of the Free World thus was no less than \$13 billion for the 3-year period ending in June 1958. Obviously, Bloc aid to all underdeveloped countries of the Free World is dwarfed by Western aid.

The bulk of Free World grants and credits went to relatively few underdeveloped countries. The major portion of US mutual security assistance went to nations associated with the West in defense arrangements. South Korea, Vietnam, and Taiwan alone received about \$3.5 billion in US governmental military and economic assistance during the 3-year period. Loans and grants provided by other major Free World countries for the most part also were distributed among relatively few countries. Excluding the US, more than 90 percent of Western governmental economic assistance was provided by the UK and France; but virtually all funds from these two countries were made available to British or French territories.

Economic development in some underdeveloped countries also has been fostered to a certain extent by Free World private investment. US private investment in underdeveloped countries during this 3-year period is estimated to be about \$4 billion. Most of the private investment activity, however, was in Latin America, which received about 75 percent of the sum, and in the petroleum-producing countries of the Middle East. Western private investment in all of the countries of Africa and Asia and in the Middle Eastern countries producing no petroleum probably amounted to no more than \$400 million during the 3-year period.

As a consequence of this apportionment of Free World funds, many parts of the world were receiving only small amounts of assistance. In several important instances, Free World assistance did not materialize because the underdeveloped country involved was unwilling to accept the conditions under which the aid would be available. A number of underdeveloped countries, therefore, have been highly susceptible to Bloc offers of assistance because they need additional capital to implement their development plans and because they do not regard it as

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\* Including both economic and military aid under the Mutual Security Program, PL 480 assistance, and Export-Import Bank loans.

\*\* Loans and grants from Western governments other than the US are estimated at about \$2 billion for the period 1 July 1955 - 30 June 1958. Loans from Western financial institutions, primarily the IBRD, are estimated to be about \$700 million.

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politically dangerous or even consider it as politically expedient to develop or expand relations with Bloc countries.

So far, 16 underdeveloped countries of the Free World have agreed to accept Bloc credits or grants. About 95 percent of all Bloc credits and grants have gone to 9 neutral countries which, with the exception of Syria, also have been receiving US governmental aid (see Table 13). Bloc credits and grants to these 9 countries amounted to about \$2.0 billion in the 3-year period ending in June 1958. In contrast, these countries received about \$1.5 billion from the US government and probably not more than \$400 million from all other Western sources, government and private. The remaining seven recipients of Bloc assistance have received only small amounts of grants or credits. Moreover, the governments of most of these countries, such as Turkey and Brazil, have been strongly resistant to the neutralist pressures from within. It should be noted, however, that, in many of these countries as well as in others which have accepted no Bloc credits or grants, the Bloc has made attractive offers which have aroused some local political groups to bring strong pressures on their governments for acceptance.

Table 13

US and Sino-Soviet Bloc Credits and Grants  
to Selected Underdeveloped Countries of the Free World a/  
1 July 1955 - 30 June 1958

Million US \$		
<u>Recipient Country</u>	<u>US Credits and Grants (Commitments)</u>	<u>Sino-Soviet Bloc Credits and Grants (Extensions)</u>
Afghanistan	61	161
Burma	57	42
Cambodia	165	22
Ceylon	30	49
Egypt	17	507
India	702	306
Indonesia	140	346
Syria	0	339
Yugoslavia	371	220
Total	<u>1,543</u>	<u>1,992</u>

a. Including both military and economic assistance. For additional data and explanatory notes regarding US and Sino-Soviet Bloc credits and grants, see Appendix A, Table 17, p. 54, below.

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In five of the countries of Bloc concentration, the Communist program compared favorably with or exceeds in size that of the US. This is clearly the case in Syria, Egypt, Indonesia, and Afghanistan. Ceylon also received slightly more assistance from the Bloc than from the US. In the other four countries of Bloc concentration, the US has provided more assistance than has the Bloc. This is clearly the case in Yugoslavia, Cambodia, and India. In Cambodia the only Bloc country involved so far is Communist China, and in India the USSR has made formidable contributions. Burma has received somewhat more assistance from the US in the past. Although the Bloc had extended considerably more credits than the US to Yugoslavia, recent suspensions have reduced these commitments to a level far below the amount of assistance promised by the US.

One distinguishing characteristic of the Bloc economic offensive is that its offers are generally presented on an integrated basis. A line of credit is usually offered simultaneously with offers of technical assistance, training, and, in particular, increased trade opportunities. Integrated offers frequently have special appeal, in particular if the underdeveloped country concerned is having difficulty in marketing its exportable products at adequate prices. Moreover, an integrated assistance program provides arrangements for repayment of loans. Because such offers contain inducements that have special attractions for underdeveloped countries, the Bloc usually makes its approaches in combined terms of trade, technical assistance, and credits. The US program, on the other hand, generally is carried out along more or less isolated lines. In particular, US trade with underdeveloped countries is largely a matter outside the scope of responsibility of mutual security officials.

Another distinguishing feature of Bloc assistance is that it is provided almost entirely on a credit basis. So far, only Communist China has provided grants, and these have been modest. In contrast, most US assistance as well as a major portion of assistance from Western Europe has been in the form of grants. Generally, on Bloc loans the interest rate is about 2-1/2 percent, although some Satellite credits have carried higher rates. Usually repayment is scheduled to begin shortly following the fulfillment of the specific contract for which funds are advanced. Thus the factory or project constructed with Bloc assistance often is supporting the productive effort in the underdeveloped country before the first loan payment becomes due. Amortization of Bloc loans in most cases is over a 12-year period.

Interest rates on Western loans to underdeveloped countries generally exceed 2-1/2 percent, often by a considerable margin, and usually repayment begins shortly after the loan is approved. The amortization period for Western loans, however, is frequently much longer than for Bloc loans. Sums borrowed from the US under the Development Loan Fund

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may be repaid over periods ranging up to 40 years. IBRD and Export-Import Bank loans often call for 30-year amortization, and even bonds sold publicly by foreign governments in the US and Western Europe generally mature in no less than 20 years. Although interest and other charges may be higher on US and other Western loans than on Bloc loans, the annual burden during the repayment period will be lower because of the longer time allowed for amortization.

In general, aid from the Bloc covers only the foreign-exchange costs of the projects which it agrees to construct. Local currency expenses must be covered by the underdeveloped country concerned, and there is usually no provision for easing the difficulties that may be incurred in raising these funds. For countries having archaic monetary systems, small aggregate annual savings, and low tax bases -- characteristics of virtually all underdeveloped countries -- internal financing of economic development poses problems no less formidable than those associated with acquisition of foreign exchange. Bloc assistance may significantly reduce the difficulty in solving the latter problem, but it generally has provided only indirect solutions to the domestic financial problems. On the other hand, US assistance may add substantially to the recipient government's availability of local currency. Local currency proceeds raised from the sale in local markets of agricultural surpluses and other aid goods are in large part subsequently loaned to the recipient government. Consequently, a government receiving US aid generally will have less difficulty in financing the local costs of its development program than a government receiving Bloc assistance.

Economic assistance from the Bloc is largely related directly to the industrial development of the underdeveloped country concerned. Many small factories, sugar mills, cement plants, cotton mills, and the like are included in the Bloc program. A few large installations, such as the Bhilai steel mill in India, have been contracted for by the USSR. A number of hydroelectric installations are being constructed or are scheduled for construction, but, with the exception of the one for the aluminum plant in Yugoslavia, these installations are small. Assistance in agronomy and animal husbandry has been given only in rare instances. Considerable effort is being devoted, however, to improvements related to agricultural development. Irrigation works are being built, rail and road transport facilities for carrying agricultural goods to market are either planned or under construction, and grain-storage facilities have been erected.

Although there are some indications that the Bloc program in time may be devoted primarily to strengthening the basic economic structure which the underdeveloped countries must have in order to experience the desired growth in agriculture and industry, so far it has lagged noticeably behind the US program in this respect. Such things as

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improvement of sanitation and sewage facilities, public housing and community development schemes, public health measures, and advancement of the public education system are basic elements in the US program. These are almost wholly neglected by the Bloc. It should be noted also that a significant portion of US aid is in a nonproject form, for a large portion of US assistance funds is used to pay for shipments of consumer items and producer goods that are not related to specific US projects. The Bloc does export such items as tractors, automobiles, and even wheat and other consumer nondurables, but these items generally are sold under trading arrangements.

A characteristic of the Bloc aid program that has given it a certain esteem in many parts of Free Asia and Africa -- in particular in the uncommitted countries -- is its independence from military pacts. About 20 percent of Bloc credits have been used for purchasing arms of various types, and about 30 percent of all US governmental assistance to underdeveloped countries has been for this purpose. No Free World underdeveloped country receiving Bloc military or economic assistance, however, is a member of a Bloc military alliance. The contrast with the US is quite apparent, for about 85 percent of US aid to underdeveloped countries goes to those with which the US is allied in military pacts. The Communist practice of disassociating their military and economic aid offers to underdeveloped countries from Sino-Soviet Bloc military alliances has disarmed many who expected that obvious political strings would be attached to such offers.

Thus the Bloc foreign assistance program is designed to appeal to neutralist sentiment, both in the avowedly neutralist countries and in the countries nominally or actually aligned with the West. The prospect of Bloc assistance has a great attraction among the growing elements in underdeveloped areas who feel that an uncommitted stand is the appropriate one for their country. Underdeveloped countries now have a seemingly attractive alternative to accepting US assistance. In fact, the position of the US in underdeveloped areas has already been weakened by the entrance of the USSR as a serious aspirant for a more dominant position in the world economy, a development which Soviet political strategists have exploited in many instances in the past and which they can be expected to nurture in the future.

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APPENDIX A

STATISTICAL TABLES

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Table 14

Summary of Sino-Soviet Bloc Credits and Grants  
to Underdeveloped Countries of the Free World  
1 January 1954 - 31 December 1958

Million US \$												
Recipient Country	Extended				Obligated				Drawn			
	Total Bloc	USSR	European Satellites	Communist China	Total Bloc	USSR	European Satellites	Communist China	Total Bloc	USSR	European Satellites	Communist China
Middle East and Africa	<u>1,142.4</u>	<u>798.2</u>	<u>323.2</u>	<u>21.0</u>	<u>800.1</u>	<u>482.1</u>	<u>301.7</u>	<u>16.3</u>	<u>446.2</u>	<u>160.2</u>	<u>281.3</u>	<u>4.7</u>
Egypt	626.0	390.0	231.3	4.7	442.1	227.6	209.8	4.7	273.2	68.5	200.0	4.7
Ethiopia	2.0		2.0		2.0		2.0					
Iran	2.3	0	2.3	0	2.3	0	2.3	0	0	0	0	0
Iraq	118.0	118.0	0	0	118.0	118.0	0	0	0	0	0	0
Syria	322.3	260.2	62.1	0	168.6	106.5	62.1	0	148.5	91.7	56.8	0
Turkey	12.5	5.0	7.5	0	12.5	5.0	7.5	0	7.5	0	7.5	0
Yemen	59.3	25.0	18.0	16.3	54.6	25.0	18.0	11.6	17.0	0	17.0	0
South and Southeast Asia	<u>975.7</u>	<u>595.8</u>	<u>281.9</u>	<u>98.0</u>	<u>821.6</u>	<u>467.3</u>	<u>278.7</u>	<u>75.6</u>	<u>317.7</u>	<u>200.7</u>	<u>77.4</u>	<u>39.6</u>
Afghanistan	159.0	145.8	13.2	0	127.2	116.5	10.7	0	70.2	60.8	9.4	0
Burma	44.2	40.0	0	4.2	7.5	7.5	0		2.4	2.4	0	0
Cambodia	34.0	6.0	0	28.0	28.4	6.0	0	22.4	9.0	0.5	0	8.5
Ceylon	58.0	30.0	1.7	26.3	15.4		1.7	13.7	0	0	0	0
India	304.4	262.7	41.7	0	304.4	262.7	41.7	0	120.1	113.6	6.5	0
Indonesia	363.5	111.3	225.3	26.9	326.1	74.6	224.6	26.9	111.8	23.4	61.5	26.9
Nepal	12.6	0	0	12.6	12.6	0	0	12.6	4.2	0	0	4.2

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Table 14

Summary of Sino-Soviet Bloc Credits and Grants  
to Underdeveloped Countries of the Free World  
1 January 1954 - 31 December 1958  
(Continued)

Recipient Country	Extended				Obligated				Drawn			
	Total Bloc	USSR	European Satellites	Communist China	Total Bloc	USSR	European Satellites	Communist China	Total Bloc	USSR	European Satellites	Communist China
Europe	<u>167.7</u>	<u>127.7</u>	<u>40.0</u>	<u>0</u>	<u>167.7</u>	<u>127.7</u>	<u>40.0</u>	<u>0</u>	<u>137.6</u>	<u>97.6</u>	<u>40.0</u>	<u>0</u>
Iceland	4.6	3.1	1.5	0	4.6	3.1	1.5	0	1.5		1.5	0
Yugoslavia	163.1	124.6	38.5	0	163.1	124.6	38.5	0	136.1	97.6	38.5	0
Latin America	<u>104.1</u>	<u>100.0</u>	<u>4.1</u>	<u>0</u>	<u>36.1</u>	<u>32.0</u>	<u>4.1</u>	<u>0</u>	<u>3.0</u>	<u>0</u>	<u>3.0</u>	<u>0</u>
Argentina	102.1	100.0	2.1	0	34.1	32.0	2.1	0	1.0	0	1.0	0
Brazil	2.0	0	2.0	0	2.0	0	2.0	0	2.0	0	2.0	0
Total	<u>2,389.9</u>	<u>1,621.7</u>	<u>649.2</u>	<u>119.0</u>	<u>1,825.5</u>	<u>1,109.1</u>	<u>624.5</u>	<u>91.9</u>	<u>904.5</u>	<u>458.5</u>	<u>401.7</u>	<u>44.3</u>

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Table 15

Terms of Repayment for Major Soviet Bloc  
Economic and Military Credits

Underdeveloped Country	Bloc Country	Date	Type of Credit	Amount (Million US \$)	Interest Rate (Percent)	Terms
Economic Credits						
Egypt	USSR	1957	Industrial	175	2.5	12 annual installments to begin 1 year after completion of delivery of equipment and materials for each project; repayment in commodities and/or convertible currency. <u>a</u> /*
Syria	Czechoslovakia	1957	Petroleum refinery	15	3	10 percent on agreement; 15 percent within 3 months after ratification; 10 percent upon completion (July 1959); 65 percent in 7 annual installments; installments in commodities. <u>b</u> /
	USSR	1957	General development	168 <u>c</u> /	2.5	12 annual installments to begin 1 year after delivery of all materials and equipment for any one project; repayment in commodities and/or convertible currency. <u>d</u> /
Afghanistan	USSR	1956	General development	100	2	22 annual payments to begin 8 years after drawing upon the credit; interest at 2 percent; payment in commodities. <u>e</u> /

\* Footnotes for Table 15 follow on p. 52.

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Table 15

Terms of Repayment for Major Soviet Bloc  
Economic and Military Credits  
(Continued)

Underdeveloped Country	Bloc Country	Date	Type of Credit	Amount (Million US \$)	Interest Rate (Percent)	Terms
Economic Credits						
India	USSR	1955-56	Bhilai steel mill	132	2.5	12 annual installments to begin 1 year after drawing on the credit; payments into rupee account for Soviet purchases of Indian commodities and/or convertible sterling; USSR granted a 3-year deferment on the payment of machinery presently being delivered. <i>f/</i>
	USSR	1956	General development	126	2.5	Terms similar to those for the Bhilai steel mill, except that payment is to begin 1 year after delivery of all material and equipment for any one project; utilization to begin in 1959. <i>g/</i>
Ceylon	USSR	1958	Development	30	2.5	12 annual installments in Ceylonese commodities or convertible currency. <i>h/</i>
Indonesia	USSR	1956	General development	100	2.5	12 annual installments to begin 3 years after drawing upon the credit; payable in commodities or sterling or freely convertible currency at the rate of exchange of the dollar on date of repayment; payable 1 year after credit has been drawn. <i>i/</i>

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Table 15

Terms of Repayment for Major Soviet Bloc  
Economic and Military Credits  
(Continued)

Underdeveloped Country	Bloc Country	Date	Type of Credit	Amount (Million US \$)	Interest Rate (Percent)	Terms
Economic Credits						
Yugoslavia	USSR	1956	Commodity and industrial credits	194	2	10 annual payments on portions drawn; interest at 2 percent. <u>j/</u>
Military Credits						
Egypt	Czechoslovakia	1955-56	Arms	250		5 annual installments; payable in com- modities. Initial payment 20 per- cent. <u>k/</u>
Syria	Czechoslovakia	1956	Arms	45		5 annual installments; partially in Syrian commodities; first installment, due in 1957, was postponed and entire arms debt postponed from 3 to 7 years. <u>l/</u>
	USSR	1956	Arms	25	2	One-third down payment; balance in 10 annual installments, presumably in com- modities; interest at 2 percent. <u>m/</u>
Afghanistan	USSR	1957	Arms	25	2	8 annual installments beginning in 1957; interest at 2 percent. <u>n/</u>
a. <u>14/</u>						h. <u>20/</u>
b. <u>15/</u>						i. <u>21/</u>
c. Estimated.						j. <u>22/</u>
d. <u>16/</u>						k. <u>23/</u>
e. <u>17/</u>						l. <u>24/</u>
f. <u>18/</u>						m. <u>25/</u>
g. <u>19/</u>						n. <u>26/</u>

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Table 16

Sino-Soviet Bloc Trade  
with Selected Underdeveloped Countries of the Free World, by Area <sup>a/</sup>  
1954-57

Area	Million US \$															
	Total Sino-Soviet Bloc				USSR				European Satellites				Communist China			
	1954	1955	1956	1957	1954	1955	1956	1957	1954	1955	1956	1957	1954	1955	1956	1957
Europe																
Exports	17.4	51.9	135.0	180.3	9.2	25.0	85.3	86.1	8.1	26.7	45.4	86.7	0.2	0.2	4.3	7.5
Imports	25.2	56.5	102.7	135.1	14.2	30.8	57.4	64.4	11.0	25.7	40.6	66.4			4.7	4.4
Middle East and Africa																
Exports	153.1	226.1	256.3	349.2	27.5	38.9	53.2	110.3	113.3	166.6	170.5	202.1	12.3	20.6	32.6	36.7
Imports	173.8	239.0	275.2	409.2	57.1	60.6	54.2	150.1	104.5	152.7	191.4	204.7	12.2	25.7	29.6	54.4
South and Southeast Asia																
Exports	119.7	134.3	247.1	245.7	4.2	6.9	35.3	57.9	27.9	51.6	57.9	58.1	87.6	75.8	153.9	129.7
Imports	126.8	184.1	209.7	248.7	9.3	20.8	49.2	72.6	27.0	58.6	58.7	56.6	90.5	104.7	101.8	119.6
Latin America																
Exports	111.7	159.1	130.5	70.8	36.8	39.1	30.1	5.2	72.2	118.4	97.8	64.7	2.7	1.6	2.6	0.9
Imports	142.7	179.2	109.4	124.0	57.2	72.6	31.8	57.8	75.2	100.7	74.9	62.3	10.3	5.9	2.7	3.9
Total trade	870.4	1,230.2	1,465.9	1,763.0	215.5	294.7	396.5	604.4	439.2	701.0	737.2	801.6	215.8	234.5	332.2	357.1
Exports	401.9	571.4	768.9	846.0	77.7	109.9	203.9	259.5	221.5	363.3	371.6	411.6	102.8	98.2	193.4	174.8
Imports	468.5	658.8	697.0	917.0	137.8	184.8	192.6	344.9	217.7	337.7	365.6	390.0	113.0	136.3	138.8	182.3

a. The underdeveloped countries included in this summary are Iceland, Portugal, Spain, and Yugoslavia in Europe; Egypt, Ghana, Greece, Iran, Iraq, Israel, Jordan, Lebanon, Morocco, Sudan, Syria, Tunisia, and Turkey in the Middle East and Africa; Burma, Cambodia, Ceylon, India, Indonesia, Laos, Malaya, Pakistan, the Philippines, Thailand, and Vietnam in South and Southeast Asia; and Argentina, Brazil, Chile, Colombia, Cuba, Ecuador, Mexico, Peru, Uruguay, and Venezuela in Latin America. These figures are based on the official trade statistics of Free World countries involved -- that is, the Bloc exports indicated are the Free World trading partners' reported imports, and the Bloc imports indicated are the Free World trading partners' reported exports. Generally, Free World imports are reported on a c.i.f. basis, and Free World exports are reported on a f.o.b. basis. All figures have been rounded to the nearest hundred thousand.

Table 17

US and Sino-Soviet Bloc Credits and Grants  
to Selected Underdeveloped Countries of the Free World a/  
1 July 1955 - 30 June 1958

Million US \$																					
Total Economic and Military	Total		Afghanistan		Burma		Cambodia		Ceylon		Egypt		India		Indonesia		Syria		Yugoslavia		
	US b/	Bloc	US	Bloc	US	Bloc	US	Bloc	US	Bloc	US	Bloc	US	Bloc	US	Bloc	US	Bloc	US	Bloc	
Total Economic and Military																					
Commitments (extensions)	1,543	1,992	61		161	57	42	165	22	30	49	17	506	702	306	140	346		339	371	220
Obligations	1,543	1,335	61		108	57	2	165	22	30	19	17	256	702	304	140	286		179	371	159
Expenditures (drawings)	802	747	29		50	1	N.A.	162	7	13	N.A.	41	255	253	89	52	85		130	251	131
Economic																					
Commitments (extensions)	1,341	1,385	61		128	57	42	109	22	30	49	17	256	702	306	140	168		194	225	220
Obligations	1,341	730	61		76	57	2	109	22	30	19	17	6	702	304	140	108		34	225	159
Expenditures (drawings)	600	312	29		18	1	N.A.	106	7	13	N.A.	41	5	253	89	52	32		30	105	131
Military																					
Commitments (extensions)	202	605			32			56					250			178		145	146		
Obligations	202	605			32			56					250			178		145	146		
Expenditures (drawings)	202	435			32			56					250			53		100	146		

a. This table presents a quantitative comparison of US and Sino-Soviet Bloc aid programs in selected underdeveloped countries of the Free World. Because of differences in the character of these programs, the figures are only roughly comparable. Moreover, in using these data, it should be remembered that there are important qualitative differences in the programs (for example, terms, methods of implementation, and the like) and in the political and economic conditions in the recipient countries. Such factors are frequently more important determinants of the impact of an aid program than is the monetary value of the program.

b. Four major components were used in computing total US aid: (1) ICA development assistance, defense support, and technical cooperation; (2) PL 480 comprising (a) that portion of sales of US surplus agricultural commodities under Title I which represents local currency loans and grants to the recipient country for purposes of multilateral trade and economic development, and (b) the Commodity Credit Corporation cost of US surplus agricultural commodities furnished under Title II; (3) long-term Export-Import Bank loans for economic development; and (4) military grant aid under the mutual security program, including material and training, and local currency loans under Section 104c of PL 480.

In regard to ICA aid, in the nature of the ICA operation there is no commitment stage representing a bilateral "umbrella" agreement comparable to the commitments made by the Sino-Soviet Bloc. The figures shown for US obligations, consequently, are the same as those shown for commitments. The data for US expenditures represent actual disbursements during the period covered. It should be recognized that a considerable portion of such expenditures derives from obligations made in prior years.

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## APPENDIX B

METHODOLOGY

The computations in section II\* are extrapolations of the estimated current burden of Soviet foreign assistance and of estimates of current Soviet trade. Burden has been defined (in preparing Tables 1, 2, and 3\*\*) as the dollar equivalent of Soviet expenditures under its foreign assistance program minus repayments by the recipient countries. Expenditures for 1957 for both Bloc and Free World countries have been estimated on the basis of available information. The expenditure figures for subsequent years have been derived on the basis of certain assumptions relating to future extensions of credits and future rates of implementation of assistance agreements. One series of extrapolated burden amounts is based on the assumption that future extensions of credit will be at the same annual level as in the past. The other series is based on the assumption of a program doubled in size. Generally, Soviet assistance agreements with Free World countries have called for implementation over periods of moderate duration, never more than 7 years. Thus it is realistic to assume that these credits will be utilized over a 5-year period beginning in the year following the extension of the credit. It appears that Soviet credits to other Bloc countries are implemented over fairly short periods. Thus it has been assumed that three-fourths of the amount extended will be drawn during the first year, and the remainder during the second year, following the extension of a credit.

Repayments in 1957 have been estimated from available information for 1957. Computations for subsequent years have been derived by adding estimated repayments on existing loans to prospective repayments on future loans. The latter figures have been computed on the basis of realistic assumptions regarding terms of repayment in Soviet agreements. It has been assumed that credits to underdeveloped countries will be repaid in 12 annual installments beginning the year following each specific utilization. On credits to other Bloc countries, it has been assumed that repayment will begin the second year after drawing and that one-half of the amounts drawn will be repaid over a 5-year period and the remainder over a 10-year period.

The computations on Soviet trade for 1957-65, summarized in Table 4,\* are based on existing levels of trade with underdeveloped countries. The

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\* P. 6, above.

\*\* Pp. 8, 10, and 13, respectively, above.

\*\*\* P. 19, above.



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basic data are extrapolated on the assumption of a continuing foreign assistance program of substantial magnitude and of a continued hearty commercial effort. Two series have been derived, one on the assumption of a foreign assistance program of the present size, the other on the assumption of a program doubled in size. Both series of computations are based on the assumption that trade not directly connected to credit agreements will continue to expand at the rate of 25 percent annually.

Data on credits extended, obligated, and drawn, which are presented in section III,\* have been derived from a variety of sources. Generally, copies of the actual agreements have been available. Thus the amount extended has usually been derived from the actual agreement, as has been the case for virtually all major agreements. When the text of an agreement has not been available or when no amount has been stipulated in an agreement, it has been necessary to estimate the amount of credit involved. In some instances, statements by public officials have disclosed the amount of credit. In other cases, confidential reports have provided information regarding credit extensions. In a few minor cases, estimates have been made by analysts of this Office of the probable dollar cost of production of the projects involved.

When the amounts of credit have been stipulated, either in the agreement or in statements of public officials, they have generally been given in terms of US dollars or of some other convertible currency. Ruble values have been stipulated in relatively few cases. Conversions to dollar equivalents when necessary have been made at the official exchange rates, regardless of the foreign currency in which the amount of credit has been stipulated. This procedure has been followed because it presents the most realistic evaluation of Soviet credits. Thus, because the USSR generally prices its exports on the basis of existing Free World prices, the official exchange rate of 4 rubles to US \$1 is a realistic ratio for converting ruble values in foreign trade to dollars.

Only long-term credits have been included in the computations in section III.\* Commercial credits, intended to facilitate trade or opened for periods of 3 years or less, have been excluded. Proper allowance has been made for initial payments made when the credit has been extended, when this information has been available. No allowance for repayments has been made in the computations of credits; payments, however, have almost certainly been small, except in the cases of the arms credits to Syria and Egypt.

Obligations under credit arrangements represent an estimate of the value of firm contracts. In most cases the contracts are for specific

\* P. 18, above.

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projects or shipments of goods and are entered into under general lines of credit. Occasionally a credit will be extended specifically for a given project. In this event, the credit has been considered obligated as well as extended on the date of signature.

Drawings under credit agreements have been estimated primarily on the basis of reported shipments of goods and of reported progress in installations under contract. In some instances, confidential reports have indicated the cost involved in construction to a given date of a particular installation. Generally, however, reports have indicated the degree of completion and an estimate of the amount of Soviet credit drawn has been made on that basis. In a few instances, budgetary reports have revealed the amounts drawn on Soviet credits.

Any discrepancy between these estimates and actual credits and grants extended, obligated, or drawn probably represents an understatement in these calculations, for they are minimum estimates. The estimate of credits and grants extended for economic development is probably no more than 5 percent lower than actual credits and grants. Greater discrepancies, however, may exist in the estimates of obligations and drawings, the latter in particular, because reports regarding implementation of Bloc assistance agreements are more sketchy and less exact than reports on extensions of Bloc credits and grants. Debt statements and ministerial reports of recipient countries occasionally are available, but more often estimates of implementation must be based on delivery or shipping notices [REDACTED]

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In some cases, no information of any type is available. Thus estimates of obligations and drawings on Bloc credits involved some speculation, the product of which is a range of values. In every case the lowest value in the range has been used in this report.

Estimates of credits for military assistance are based for the most part on reports on the quantity of specific types of equipment shipped, delivered, or observed. When Bloc prices of specific military items have been available, they have been used to convert estimates of physical units to value terms. In some instances, US prices for comparable items, however, have been used. Some military goods have been sent as gifts or sold at discounts. When this information is known, it has been taken into account in these estimates. It is possible, however, that some military goods included in the calculations at full cost have actually been sold at discount prices or given to the underdeveloped countries. Thus there is considerable margin for error in these estimates. Actual indebtedness arising from the arms arrangements may be somewhat lower than the values estimated in this report, particularly if unknown cancellations of such indebtedness have been large. On the other hand, the dollar value of actual arms shipments is almost certainly greater than these estimates of military credits.

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Estimates of the number of Bloc specialists in underdeveloped countries represent a compilation of reports from a large number of sources. Individuals associated with permanent commercial missions and individuals connected with traveling delegations have been excluded from these computations. Only those specialists reported to have been in a country for a month or longer during the period have been included. Recompilations have been made for each period reported. For example, unless a group of men working on a specific project in 1956 has been reported as working on the project in 1957, the group has been excluded from the 1957 estimate.

Some Bloc technicians whose presence has not been revealed may be working in underdeveloped countries. For these reasons, the estimates in section III\* probably understate the number of Bloc technicians actually working in the underdeveloped countries. Estimates for early years of the economic offensive probably understate actual conditions to a greater extent than estimates for recent periods. Thus the rate of increase may have been less than appears in these estimates, for some technicians reported for the first time in recent periods actually may have been working in an underdeveloped country in previous periods.

It has not been possible to avoid an inflationary bias in these estimates, on the other hand, when Bloc technicians are rotated during a period of accounting. Thus, under the system used in this report, if a Soviet engineer works on the Bhilai steel mill from January through March and is replaced by a second engineer in April, it would be estimated that 2 Soviet engineers worked in India during the accounting period. In fact, however, India would have received the services of only one engineer for the period. This particular bias is accentuated when the period of coverage is an extended one. It is not likely, however, that this bias leads to a significant inflation in the estimates of Bloc technicians in underdeveloped countries.

\* P. 18, above.

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